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# **BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI) INVESTIGATION—PART 2**

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## **HEARING**

BEFORE THE

**COMMITTEE ON BANKING, FINANCE AND  
URBAN AFFAIRS**

**HOUSE OF REPRESENTATIVES**

**ONE HUNDRED SECOND CONGRESS**

**FIRST SESSION**

**PART 2**

**SEPTEMBER 13, 1991**

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## BANK OF CREDIT AND COMMERCE INTERNATIONAL (BCCI) INVESTIGATION—PART 2

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FRIDAY, SEPTEMBER 13, 1991

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,  
*Washington, DC.*

The committee met, pursuant to call, at 9:30 a.m., in room 2128, Rayburn House Office Building, Hon. Henry B. Gonzalez [chairman of the committee] presiding.

Present: Chairman Gonzalez, Representatives Annunzio, Neal of North Carolina, Hubbard, Vento, Kanjorski, Kennedy, Hoagland, Moran, Wylie, Leach, Hancock, Johnson, and Sanders.

The CHAIRMAN. The committee will be in order.

Members are on their way, including Mr. Wylie, who has indicated he will be here today, so I will take double advantage here and enlarge on the problems.

I wanted to thank the witnesses, the officials, the Federal Reserve, for responding to the committee's invitation and joining us this morning. I would like to start out by giving a little bit of personal history that should reflect my personal involvement.

Historically, the first attempt of Congress to address the question of international banking laws in the United States was 1978, but actually that became possible only after hearings that I had insisted on, and after much pleading I finally convinced the chairman of the committee at that time, Mr. Reuss, and the subcommittee chairman, my predecessor, chairman of the full committee, to come down to my district in San Antonio and have a hearing in the name of the Subcommittee on Financial Institutions.

For 10 years I was chairman of the Subcommittee on International Finance. This is something that, you know, is personal history, nobody is much aware of it or gives a hoot, or I don't see why they should, but in any event, I had information, both from banking sources and savings and loan sources in Texas, of occurrences involving very heavy daily cross-border transactions. An individual outside the United States would get in his Cessna, load his plane with bags of money or something else, comes into Texas, nobody would be aware of it; there was no requirement to give any information at that time, and the problems stem from the fact that these individuals began to get involved in the financial institutions in the State of Texas. One in particular, was south of my district in the township of Carrizo Springs.

So in 1975, we had those hearings. And in fact, we had 2 days of hearings. The testimony and the documentation adduced during

the course of those hearings really was impressive to the point where the Banking Committee subsequently had hearings on the matter on a more generalized level.

The Carrizo Springs S&L, for instance, was one of the first that failed because of insider dealing, and if anybody wants to see that history, we have the printed hearings. We may still have some copies of it, but in any event, that is my continuing sustained interest since that period of time.

We kept pushing, and it wasn't until 1978 that finally a very, very watered-down, lobbied-down bill was passed known as the international banking law.

Subsequent to that, there wasn't a year that I didn't push the chairman to improve and perfect because, in effect, not much had been done to really provide the American people with a minimal degree of protection similar to every other industrialized country, even to this day.

So the rest is history, but I thought I would mention that because I don't want anybody to think that I am here because we want to go out of here and regurgitate who did it, why it wasn't done, and who is to blame. I don't think that is what should be before this committee, as I said the day before yesterday in the case of the witnesses we had then.

First, we are not an investigatory or prosecutorial body. Second, we are not a judicial body. I am not interested in saying, "Well—." We have done enough of that, we pointed out, and I think the printed record in and out of the mainline media as well as the industry press has clearly indicated that there have been regulatory failures.

The BNL banking situation, which we went into and which didn't generate too much interest, I think is far more of an insidious case than BCCI. The Federal Reserve Board and its staff agreed the BNL clearly revealed that we needed additional legislation, with the main purpose to provide the regulators with the instruments of power that would enable them to adequately supervise, regulate, and oversee this now tremendous volume of asset money in this country, which has a tremendous high leverage potential, and in ways that actually I don't think anybody in this room or outside of this room can tell us, either on the State level or Federal level, exactly how or what manner, shape, or form that money is being channeled.

We will try to target the questions in such a manner as to elicit with the utmost urgency and priority, to meet the need to perfect even the amendments we have in H.R. 6.

It is obvious that something is needed here. I think I still have about 2 minutes for my formal prepared statement, if there is no objection; I don't think I have reached my 5 minutes—well, the staff doesn't have to answer that.

The BCCI question which is the immediate triggering factor that brings us together this morning, of course, comes against the backdrop of unprecedented financial regulatory failures, turmoil in our financial markets. It is not just the United States. There is not a country in the industrial world that isn't going through the same thing.

Japan is going through scandals and stock market tragedies. In Europe, we have a similar situation. So it isn't isolated to the United States.

However, I think the United States has a higher degree of responsibility at this particular time. The United States is undergoing what I would consider a moral and a financial earthquake. And it is going to take the good will and the wit and the willingness of everyone—I have said this repeatedly—on the public level, the private level, the executive level, for us to address these problems in an orderly, systematic, and dispassionate way.

And if we get into this question of who to blame and get off on these sidetracks, I think we won't be actually serving the purposes for which we have been elected and that is to serve the people, the greatest interest of the greatest number.

Now, we have seen the thrift industry virtually wiped out. In my district, there is not one S&L, and we have what we thought was an absolute bedrock institution, one of the very few mutual institutions chartered by the State, that that seemed absolutely impregnable. They are all going under. There is not one in my district that hasn't been taken over. That is tragic.

Some of the most illustrious families in the area have been affected. It is tragic and to be deplored.

But there is no use wringing our hands. The point right now is what should we be doing as a matter of priority first, second, third, and down the line.

We can recite here and I think the record shows that there has been enough derelicts around on every level, congressional, private level, accounting level, banking, S&L, credit, you name it. We could dwell on that, but I don't think we should. So I ask unanimous consent that I place the prepared text of my opening remarks at this point in the record and recognize Mr. Wylie.

[The prepared statement of Mr. Gonzalez can be found in the appendix.]

Mr. WYLIE. Thank you, Mr. Chairman.

I would like to commend you for holding these hearings. I noticed an article in the paper this morning involving Southwestern Savings and Loan Association, which is very disconcerting. It would seem that the problem goes on and on. And when we get through with BCCI with our hearings, if we ever do, we may want to have a hearing on Southwestern Savings and Loan. So it looks like we have plenty of work for us ahead. But I appreciate the diligence which you have demonstrated and the persistence you have shown in trying to get to the bottom of some of these problems, especially this morning.

We are glad to have these hearings. I am glad you are having these hearings so that we might obtain information as to the Bank of Credit and Commerce International, how it was able to gain a foothold in this country as far back as 1982 through the purchase of Financial General Bankshares, renamed as First American Bank. This foothold proved to be a valuable asset for BCCI, and allowed BCCI to engage in correspondent banking, move funds and have First American for liquidity purposes when necessary.

BCCI was also able to obtain State licenses to open a number of representative offices and agencies when money laundering was rampant.

I think it is fair to say that our regulatory system has been compromised. That being said, I think it is worth noting how the total liabilities of the BCCI scandal work out in the various countries.

Out of the estimated \$17.8 billion in potential total liabilities worldwide, \$3 billion are in the United Kingdom, \$4 to \$5 billion are in Arab countries and \$1 billion is in Spain. In contrast, \$23 million is the maximum potential loss in the United States, but I know our witnesses will testify to that and talk a little bit more about that.

One billion dollars of BCCI assets has already been seized to cover our losses. So it would appear that the U.S. taxpayer will not pay for this scandal, and that may be the good news coming out of this.

These figures seem to indicate just how effective our regulatory system has been in preventing outright fraud in the United States. To help us unravel the regulatory origins of BCCI in this country, we have witnesses here today from the Federal Reserve System, and I would like to thank them and their staff for the complete co-operation we have received in preparation for this phase of the hearings.

There are a number of questions involving the Federal Reserve's role that are still unanswered: Why did the Federal Reserve approve the 1982 application for Financial General, when it would seem that information was available indicating some of the investors might be shady characters? How did Clark Clifford influence the board decisions, if he did?

The testimony of Clifford and Altman only confirmed my suspicions that they knew from the beginning what role BCCI would play. We need to know why it took so long for the Fed to close down BCCI. Did it act appropriately as to BCCI's activity and how did it ultimately discover the loans from BCCI to Clifford and Altman?

I feel these questions and others need to be answered this morning. I also think it would be desirable, as the chairman pointed out, to know just what we need to put in H.R. 6 in the way of supervision over foreign banks.

As the chairman mentioned, he and I have put a bill in to address some of these concerns. I think this is an area that probably needs improved coordination of the regulatory agencies with central bankers and regulators in other countries. I look forward to hearing your testimony this morning.

Thank you very much, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Wylie.

[The prepared statement of Mr. Wylie can be found in the appendix.]

The CHAIRMAN. Mr. Annunzio.

Mr. ANNUNZIO. Thank you, Mr. Chairman.

I would like to give my congratulations to you in your continued efforts and hard work in pursuing, trying to get to the bottom of the biggest scandal in banking history. Like so many hearings that the Banking Committee and the Financial Institutions Subcommit-

tee have held over the past 3 years, this hearing examines the actions of our financial institution regulators.

Like many of the previous hearings, this one will consider whether Federal bank regulators did their job, and like in so many of those hearings, Mr. Chairman, I think that we will conclude that supervision was inadequate.

By now, there should be no surprise to the members of this committee. We have seen how the decade of the 1980's was one marked by deregulation and relaxed supervision. The administration and its bank regulators made no secret of their faith in deregulation.

The regulatory environment did not encourage aggressive investigation. Time and time again we have seen how troubling information would become known to the bank regulators and they would take no action. Examiners would identify the shortcomings of numerous banks headed for failure, but take little or no action to stop them. In that regard, Mr. Chairman, BCCI is just one more example of how deregulation and lax supervision in the 1980's have led to some of the most spectacular financial scandals in American history.

The CHAIRMAN. Thank you, Mr. Annunzio.

[The prepared statement of Mr. Annunzio can be found in the appendix.]

The CHAIRMAN. Mr. Leach.

Mr. LEACH. Thank you, Mr. Chairman.

I just want to make a couple of comments about perspective.

I agree with everything the distinguished subcommittee chairman just commented on, but I think the perspective ought to be a little wider than that. It is not exactly a 1980 Republican scandal.

What we really have here is Republican regulator gullibility about Democratic Party conflicts of interest. If there is partisan accountability, it is Republican misfeasance and Democratic malfeasance.

I just want to stress that the policeman may not have been on the beat, but the conflict of interest is at the root of the problem. You may have had inducements to bad acting whether by inadequate regulation or inadequate legislation. But as I understand the framework for regulation, you can hardly turn a scandal that relates to certain people into a scandal that relates to other people, and one ought to be very careful about attempting to do that.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Leach can be found in the appendix.]

The CHAIRMAN. Mr. Leach, I pointed out that corruption is bipartisan.

Mr. LEACH. I think the distinguished ranking Member made that point when he called quite rightfully for hearings today on a problem, and on behalf of the minority. I would say such hearings would be appropriate and I would hope they would be held in conjunction with a serious effort by this committee to get to the bottom of the Centrust problem, which is something that this committee has to date not very adequately addressed.

Thank you.

The CHAIRMAN. I can mention several institutions that we haven't gone into, but that doesn't mean we will not at the first available opportunity.

But what I am saying is that we get into this bramble patch of having in one party all of the swans and the other party all of the ducks. It is going to result in a rather bisexual affair. We are going to have a duck-swan here.

Mr. LEACH. You stand above the swans and the ducks, Mr. Chairman. Everyone is a bird of a feather in American politics, except perhaps yourself.

The CHAIRMAN. Well, thank you very much.

Mr. Hubbard.

Mr. HUBBARD. Thank you, Mr. Chairman.

I won't try to add to that dialog.

I do commend you, Mr. Chairman, for holding this series of hearings on the Bank of Credit and Commerce International. Yes, BCCI has engaged in a long list of alleged wrongdoings. If these allegations are true, then BCCI is perhaps the greatest international outlaw in financial history.

Today, Federal Reserve officials will tell us they did everything they could to investigate BCCI. This claim notwithstanding, there are a number of troubling questions about just how vigorous these efforts were.

First, our committee has received documentation showing that as early as 1988, the U.S. Justice Department officials were informed that BCCI owned First American. I have before me a transcript of the September 1988 conversation between Mr. Amjad Awan, an officer of BCCI, who was later convicted of money laundering, with the conversation between him and a Federal undercover agent, in which Mr. Amjad Awan states that BCCI owns First American Bank.

Well, the obvious question at this point is, was this ever—was this information ever passed on to the appropriate Federal officials, and if so, why didn't it produce any results?

Second, in 1988, a special international regulatory panel known as the College of Supervisors was established by several countries with the purpose of monitoring BCCI's worldwide operations. Indeed, this international panel discovered valuable evidence of BCCI's ownership of First American as early as 1988. Yet, because the Federal Reserve decided against joining this panel, they did not discover this evidence until much later.

The question, again, why did the Federal Reserve refuse to join the College of Supervisors, especially since it admits that its own enforcement staff was too small and underfunded to take on this enormous investigation single-handedly?

There are reports that even when Federal Reserve officials discovered a Price Waterhouse report revealing key links between BCCI and First American, they, quote, "refrained from accepting a copy of the Price Waterhouse report lest the New York District Attorney's office subpoenaed such records," unquote. That is written by one of the Federal Reserve's own officials, Thomas McQueeney.

Why were agency turf battles more important than getting to the bottom of the BCCI scandal? We have been provided an excellent article that appeared in the *Wall Street Journal* on August 6.

It was written by Peter Truwell. It goes on to say that even Allan Greenspan, a member of the Federal Reserve, abstained from voting when he came to the notorious Bank of Credit and Commerce International.

Just a couple of sentences from this article, he is referring to Mr. Greenspan's recusal upon a potential conflict of interest, even if there was only a small one, but there are many other meaningful links between the Fed, BCCI, and First American. Individually, none of the relationships may be all that significant, but taken together they show that the Fed and First American were very much a part of the revolving door in Washington in which it is sometimes difficult to distinguish between the regulators and the regulated.

In closing, I would say that on Wednesday, just 2 days ago, Clark Clifford and Robert Altman testified before this committee. The headline on page 1 of yesterday's *Washington Post*, quote, "Our consciences are clear," unquote. In light of the questions I have just raised, I wonder if regulator officials can make the same claim.

I welcome today's witnesses and look forward to hearing their testimony.

[The prepared statement of Mr. Hubbard can be found in the appendix.]

The CHAIRMAN. Mr. Hancock.

Mr. HANCOCK. Mr. Chairman, frankly, I think we are into an area here that is going to have the ramifications that maybe we can't even envision right now.

The comment was that corruption is bipartisan. When I look at the list of witnesses and the list of the people here, I wonder if we are not getting into a situation of extreme corruption on the part, frankly, of a particular profession. And I am concerned about it. I notice that everybody listed here, everybody that has been interviewed, the regulators from the Fed and what have you, are from one profession. And that concerns me, Mr. Chairman. And I think that is something that maybe we will look at. Maybe the Vice President had a lot of justification in the comments he made recently down in Atlanta.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Hancock can be found in the appendix.]

The CHAIRMAN. Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman.

Mr. Chairman, I want to, again, congratulate you on holding this hearing, and I want to thank you for your willingness to take on, as you have time and time again, the most controversial issues that confront the banking community.

We have heard many reports going back and forth over the course of the last few years, allegations of particular Federal regulators not being willing to take on some of the tough responsibilities that are involved with their jobs. I think they have produced much evidence that perhaps people on this side of the aisle were not as vigilant as possible in terms of performing our jobs.

But the reality I think we are confronting here today doesn't just deal with the individuals that are before us. The fact is that there are a number of other Federal agencies that are involved in this

scandal. Those Federal agencies, particularly the Central Intelligence Agency's understanding of what was taking place with respect to BCCI going back many, many years, and their potential involvement in either getting the Fed to back off certain investigations, getting the Department of Justice to potentially back off in certain situations, is really I think at the heart of what we ought to be investigating. It is one thing to have, as we have seen, the allegations in the newspaper today that are then responded to by specific regulators as having an excuse but if, in fact, underneath those excuses, if in fact underneath those cozy relationships there was an orchestrated manipulation by an agency of this Government that required individuals who were attempting to do their job properly to back off in order to avoid embarrassment, that it seems to me is the hidden dirty secret that I think we should get at, and I think is the ultimate responsibility of this committee.

So I look forward to questioning the witnesses before the committee here today. I feel, Mr. Chairman, that depending on the responses that we get today, it might be well worth our while to extend these hearings and question other agencies of the Government in terms of their specific involvement in this case.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Mr. Kennedy.

[The prepared statement of Mr. Kennedy can be found in the appendix.]

The CHAIRMAN. Mr. Johnson.

Mr. JOHNSON. Thank you, Mr. Chairman.

I want to thank you, again, Mr. Gonzalez, for having these hearings. I think they are most important to the country. I find it hard to believe that some branches of BCCI or its American subsidiaries were allowed in this country, and contrary to retrenchment on the part of most U.S. banking, BCCI was expansionist.

You know, I fail to understand why some of our regulatory agencies couldn't see that when they couldn't see the money flowing in both directions, and I wonder as soon as I see plush new facilities being built by the Federal Reserve in Texas, and other States, it makes me wonder if the Fed is at all cognizant of their role as protector of the American people. I hope, and I am sure, thanks to you, Mr. Gonzalez of Texas, that we can maybe figure out what our past mistakes are and learn from them and get our banking problems behind us and get on down the road.

Thank you.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Johnson can be found in the appendix.]

The CHAIRMAN. Is that new facility in Dallas, Mr. Johnson?

Mr. JOHNSON. Yes, sir.

The CHAIRMAN. Is it in your district?

Mr. JOHNSON. I am not sure. I think it must be in a Democrat area.

The CHAIRMAN. All right.

Mr. Hoagland.

Mr. HOAGLAND. Well, thank you, Mr. Chairman, and thank you for organizing these hearings.



I just would like, I think, to put something forward on behalf of the Fed, I think we have to be awful careful about rushing to judgment on issues of this complexity before all the evidence is in. And I think we have to remember that we are never going to have perfect regulation in America. The best we can hope for is good regulation. And I think, by and large, the Fed, within its sector of responsibility, provides good regulation.

I have read the statement that has been prepared by Mr. Mattingly and Mr. Taylor and Mr. Corrigan, and I must say that taking that statement at face value, and I am sure we can, with gentlemen of their integrity; frankly, I am quite impressed with the activities of the Fed before the full scale of fraudulent activities became generally known.

For instance, four of the six agencies of BCCI in America were closed in January 1991. The representatives offices were closed by August 1990, again, well before this international coalition of regulators fully understood the depth of the fraud, and BCCI's operations in America had shrunk \$1 billion to \$250 million.

Another way of looking at these facts is, and that is pretty impressive, and it has left the BIF and the American taxpayers with virtually no losses, as I understand it. And I think this can be viewed as a compliment to the Fed, and the fact that they performed better than any of the other regulatory agencies in any of the other countries.

Now, again, no regulation is going to be perfect, but, you know, in the face of intentional criminal activities by extraordinarily clever individuals, setting up a structure first in Luxembourg and then elsewhere, where there is a minimum of regulation, I am sure, as our colleagues from Missouri and Texas have pointed out, by some of the very best attorneys in the world, there is really only so much that regulators can be expected to do. And I am not saying any job could have been done better, but I think we have to be careful about holding our regulators, who are very well intentioned and by and large very competent, to impossibly high standards.

But any way, there are many additional facts that I am sure will come out. But, again, I think, you know, you have got to say that in many respects they did a pretty darn good job in this case in protecting the United States.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

[The prepared statement of Mr. Hoagland can be found in the appendix.]

The CHAIRMAN. Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman.

I have a long list of good, sexy questions and I am sure my colleagues do, related to criminal activity, issues that perplex the problems of the committee as much as they do the American people.

We want to know why the CIA didn't do a better job of sharing the information, pursuing the information they had available, why the Justice Department would accept a \$15 million fine from a multibillion dollar bank and give up their right to prosecute for a long list of alleged criminal activities.

But we are not in the role of a jury. Our purpose is not that of a prosecutor or a trial lawyer. Our purpose is here to investigate what transpired for the purpose of ensuring that it doesn't repeat itself, to understand the past so that we can promote improved public policy and perhaps pass legislation that might address a lack of communication, coordination, or more aggressive pursuit of wrongdoing.

So that is the context in which these hearings will take place, and we are very anxious to hear how you feel that the system can be improved so that we don't have this string of embarrassing information coming out in magazines and newspapers day after day.

I agree with Mr. Hoagland that the Federal Reserve is a very responsible agency with top flight professional personnel and perhaps that is why the Federal Reserve is targeted for so much scrutiny, because we expect such high standards. And in some ways, we think, well, if those various agencies couldn't do their job, at least we should have been able to rely on the Federal Reserve. And I think that is the context in which we will be asking further questions related to your testimony, and we are very anxious to hear from you, how you think these problems might have been prevented and how we can ensure they do not recur.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Moran can be found in the appendix.]

The CHAIRMAN. Mr. Sanders.

Mr. SANDERS. Thank you, Mr. Chairman.

I apologize for jumping in and out, but there is a meeting upstairs sponsored by the National Organization For Women which is suggesting the need for a third political party, something dear to my heart.

Mr. MORAN. They had their entire caucus there, right? I am sorry. I shouldn't have said that.

Mr. SANDERS. Entire caucus within this building. We feel we have many millions of people outside this building.

Mr. Chairman, I thank you for bringing forth the—bringing these gentlemen before us. With your permission, I would like to submit for the record a statement.

The CHAIRMAN. Without objection, your statement as prepared will be in the record.

Mr. SANDERS. Mr. Chairman, I know you share the feelings of many Americans that something is not right in the American banking system today. And while I think this hearing is very important in trying for us to understand how BCCI could have gotten influence and where were our regulators and so forth and so on, I think the problem runs a lot deeper than that.

But to look at what is happening in this country in the last several years, we start with the savings and loan situation where a significant number, a significant number of the leading bankers in the S&L industry were involved, not just in stupid investments, not just with greedy actions, but in outright illegal activity.

I have heard estimates running as high as 35 percent of the institutions that failed were involved in illegal activity.

And then, as you know, Mr. Chairman, we then proceed to deal with the commercial banks and what we hear there about the

greed in which these people have taken their depositors' money, invested in quick, get-rich real estate schemes.

They have invested in Third World dictatorships, they have passed money around to each other, and now the taxpayers will be asked to spend tens and tens of billions of dollars trying to bail out those institutions.

And then yesterday, 2 days ago, we hear from Mr. Clifford, Mr. Altman, about the BCCI. We will be continuing that discussion today.

I have to tell you, Mr. Chairman, that I have a sad feeling that several months from now we will be sitting in this room hearing again about another banking scandal. I, myself, do not have confidence that the Federal Government, at this point, is capable of regulating the banking industry.

I think we need radical changes in the relationship of banks to America, because while the bankers are engaging in selfish, greedy activities, at the same time, the standard of living of our people is declining because banks are not reinvesting in the United States of America.

And I think what we have to be clear about and begin to discuss is what is the function of the banking institutions in this country, why are we not reinvesting in our factories, in our farms, in our small businesses, creating the kinds of jobs that we should be creating?

Two days ago—it was not illegal, but the question I asked of Mr. Altman and Mr. Clifford was, "What goes on?" Even if everything they said was honest—and many of us doubt that—what goes on when two leading American bankers, multimillionaires, pillars of the establishment, are taking huge sums of money from Middle Eastern potentates including Third World dictators? That is what the leader of Abu Dhabi is, he is a Third World dictator and these guys are working for him.

So I would suggest, Mr. Chairman, maybe at some point in the future, we have to change the focus of this, because every 2 months it is going to happen again. The American people do not have faith in the leadership of the banking system and for good reason. We are sick and tired of bailing out to the tune of tens of tens of billions of dollars these criminals.

When we talk about the crime problem, know the President of the United States is very concerned about crime in America. I have got news for you. We are seeing that major crime activities do not necessarily take place in dark allies and streets. They take place in corporate board rooms.

I think we ought to be thinking more radically in terms of the responsibility of the banking community to the people of the United States.

I applaud you for holding this hearing, but I hope in the future, we will get a little bit deeper into that issue. I thank you.

[The prepared statement of Mr. Sanders can be found in the appendix.]

The CHAIRMAN. Thank you, sir.

Gentlemen, the committee is proceeding under rules 10 and 11, I might add, of the Rules of the House, as an investigatory capacity. So I will ask you to please stand and raise your right hand.

[Whereupon, the witnesses were sworn.]

The CHAIRMAN. I will accept the suggestion of the order of presentation and recognize Mr. Mattingly first.

**STATEMENT OF J. VIRGIL MATTINGLY, GENERAL COUNSEL,  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Mr. MATTINGLY. Thank you, Mr. Chairman.

I and my colleagues are pleased to appear before the committee to discuss the Fed's supervision of BCCI and our continuing investigation of its secret acquisition of several U.S. banks.

Mr. Chairman, we have a story to tell of persistence, dedication, and courage on the part of the Federal Reserve in getting to the bottom of this BCCI fraud, and we appreciate the opportunity you have given us to tell that story.

I will concentrate on five major points we believe should be stressed. First, the Federal Reserve has never approved any presence by BCCI in this country. For that reason, BCCI has never been authorized to take deposits, a single dollar of deposits, from U.S. citizens through any insured bank.

Our investigation indicates that BCCI was well aware that the Fed presented a serious obstacle to its desire to acquire U.S. banks. Instead, in the 1980's, BCCI opened six agencies and several representative offices in the United States with the approval of State authorities.

The Fed has recommended legislation which the chairman and this committee have endorsed that would require Federal review before a foreign bank can establish any office in the United States. This case shows that we need tough national standards to prevent thinly capitalized, poorly managed, and most importantly, inadequately supervised foreign banks from operating in this country.

We must also make sure that foreign banks cannot hide fraud and deceit behind bank secrecy laws. They should not be permitted to enter the United States unless the regulators are assured of full and timely access to the information we need to enforce this Nation's laws.

Chairman Gonzalez has noted at the opening that this legislation is a matter of some urgency and we at the Fed wholeheartedly share his view.

The second point, in 1987 and 1988, our examinations detected money laundering and operation problems at these State-licensed agencies. Despite concerns expressed by other regulators here and abroad, the Fed took strong enforcement action against BCCI, issuing a cease and desist order to correct serious deficiencies and prevent future money laundering.

When BCCI pled guilty to money laundering in 1990, compliance with the Fed's order was made a condition of its probation by the court at the urging of the U.S. attorney in Tampa. Through the Federal and State regulators, BCCI's agencies were shrunk by about 75 percent during this time period.

By the time of its seizure on July 5, 1991, BCCI had closed down four of its agencies, shut its rep offices and its U.S. operations had been squeezed down from \$1 billion to \$250 million. Most impor-

tantly, there were less than \$25 million in liabilities to third parties.

Thus, at the time of the closing, the vast majority of funds and its two remaining agencies were its own. They were not those of U.S. depositors or citizens.

Third, the Fed did act to prevent an illegal BCCI presence in this country in 1980 when Middle Eastern investors applied to acquire First American. Although the Fed did not have evidence at that time of fraud or illegality in BCCI's overseas operations, we were concerned about BCCI's unregulated status and rapid growth.

The Fed received explicit commitments from the investors and their representatives that the acquisition was being made with the investors' own funds and that BCCI would not acquire shares or finance the investors.

These representations are unmistakable and unmistakably clear, in our view. The Fed, however, did not rely on representations alone. The Fed made substantial efforts to verify what it was being told. The Fed asked the investors to supply financial statements and other documents which confirmed the various representations.

The materials submitted by banks and by accounting firms indicated that the principal investors were multimillionaires, fully able to make the investment using their own funds and without borrowing from BCCI or anyone else.

The Fed went on to conduct background investigations of these investors. The Departments of State and Commerce were consulted with, and they stated these persons were persons of substance and they knew of no reason the investors should not be associated with a U.S. bank.

The CIA was consulted and reported no adverse information on the investors. Finally, the Fed took the unusual step of holding a hearing at which four investors, including the largest, and the investors' lawyers, were called in.

They further denied any BCCI involvement in financing the investment. It is important to note that the Fed is not authorized to deny an application on suspicion or rumor, or even because it wants to. Under the law, we must have evidence. The Fed had no grounds for denial, and therefore gave its approval in August 1981.

Fourth, since allegations of an illegal BCCI/First American link reached the Fed in late 1988, the Fed has investigated the relationship between the two, detecting and producing, in our view, hard evidence of violations by BCCI and others of the Bank Holding Company Act and other banking statutes.

The first allegation came to the Fed in late 1988. Based on my discussions with those involved, we know that in September 1988, an IRS agent sought assistance from a Federal Reserve official in connection with an undercover operation regarding BCCI's money laundering in Florida.

The IRS agent told the official that any leak could jeopardize lives and compromise the investigation. Therefore, the agent did not provide the Fed with a lot of information. The Fed official mentioned to the agent that BCCI was an issue for the Fed and that if the Fed had the evidence, it would expel BCCI from the country.

During one of a series of calls on the money laundering, the IRS agent told the Fed official that during the undercover operation, a

banker had alleged that BCCI owned First American. According to the agent, the Fed official requested the evidence but was not given the name of the witness because the information was not public.

The Richmond Reserve Bank received a similar report from the press. According to the IRS agent, again, on December 27, 1988, there was a call to the Fed official in which the agent asked, hypothetically speaking, whether a case could be made to expel BCCI if he could provide the name of five or six former BCCI officials who would testify that a high-level BCCI official stated at a meeting that BCCI owned First American.

The agent states the Fed official responded that documentary evidence would be needed. Federal Reserve-trained investigators have subsequently interviewed this witness referred to by the IRS. He was one of the BCCI employees indicted and convicted for money laundering.

The witness stated he had no firsthand knowledge of BCCI ownership, and his statement during the undercover operation was based on "corporate gossip" within BCCI. The witness has provided no support for our case.

In January 1989, shortly after the information we received from the IRS, the Fed followed up on the allegations with a review by the Richmond Reserve Bank of First American's relationship with BCCI. The Richmond Bank questioned First American management and requested that information be obtained from the CEO of each of the First American banks on any financial dealings with BCCI and the First American banks.

The Reserve Bank found no evidence of irregularity. In addition, the IRS agent states he was contacted by the Fed official at this time on a then-pending acquisition. The Fed official asked whether the agent had any information that would assist the Board on the application. The agent says "I don't have anything," believing the Fed was interested in documentary evidence, because of the previous telephone call he had with the Fed official on the hypothetical.

The Fed did not let the matter drop. In 1989, and again in 1990, the Fed continued to seek information from law enforcement agencies we knew were probing BCCI. In June 1989, while the U.S. Attorney's Office in Tampa was investigating BCCI, a Fed official met with attorneys from that office in Tampa and stated our desire to obtain information that they obtained on the investigation when complete.

On February 7, 1990, 2 days after BCCI was sentenced for money laundering, the Fed sent two experienced Fed lawyers to Tampa for the express purpose of determining whether the U.S. attorney's investigation had unearthed any evidence that BCCI owned First American.

The U.S. Attorney's Office referred our investigators to the IRS, including the agent who had talked to the Fed official earlier in 1988 and 1989. The IRS indicated that a report of their investigative findings had been prepared.

The Fed requested the report of the U.S. attorney. It was not provided, we were told, because of grand jury secrecy and witness confidentiality considerations. For similar reasons, the Fed was not told of investigative tapes or given copies of transcripts.

The investigators were told by the IRS of the existence of an informant whose credibility the IRS told our people they seriously doubted and another lead. The Fed was subsequently given the name of the informant, but was unsuccessful in repeated efforts to contact this person until 1991.

Again, the Fed did not let the matter drop there. In further efforts to obtain information on the allegation of control, the Fed in the summer of 1990 pursued another avenue of the investigation.

We reached an information sharing agreement with the New York County district attorney, Mr. Robert Morgenthau, that allowed our investigators access to certain materials he had compiled in grand jury investigating BCCI.

Mr. Chairman, this agreement and the ongoing cooperation and collaboration between the Fed and the New York County D.A. were to be of great benefit to both in uncovering what Mr. Morgenthau has aptly described as the largest banking fraud in history.

In the fall of 1990, the Fed, acting on a tip provided by the D.A., demanded, and, after initial refusals by Price Waterhouse, was eventually able to review in London at BCCI's offices a Price Waterhouse report. The report confirmed the existence of over \$1 billion in loans by BCCI secured by the shares of First American's parent holding company.

BCCI's CEO told a Fed official at that time that the loans were nonperforming—they had never received any payment on the loans. The Fed demanded and eventually obtained the critically important backup files on those loans, showing that the borrowers were nominees from BCCI and that the loans were sham.

The Fed also at that time immediately initiated examination of the entire First American banking organization focusing on determining whether there were any financial dealings with BCCI or abuse of those banks for BCCI's benefit.

Mr. Chairman, the Fed's investigation has been intense and thorough. This has not been an easy exercise for the Fed. It has consumed an enormous amount of resources and required dedicated effort and courage by our staff and investigators.

It has encompassed seizure and review of tens of thousands of pages of documents, both here and in Europe and the Middle East, weeks of depositions, interviews of more than 50 different persons in the United States and overseas, and collaboration and consultation with Federal, State, and foreign law enforcement agencies.

We believe the results, however, are well worth our effort and we are proud of those results. The evidence unearthed by our staff establishes the nature and extent of numerous violations of banking law in the United States, the methods by which the violations were planned, engineered, and implemented, and the nature and whereabouts of the evidence establishing those violations. The quality of our evidence is evident from the notice of charges that we have issued on July 29; and the boxes of investigatory materials that this committee has subpoenaed from the Board, including the evidence of loan arrangements between BCCI and the nominees that are the heart of our case.

In that notice, and one other, the Fed has assessed a civil money penalty of \$200 million against BCCI and initiated actions to bar

nine individuals associated with BCCI from any further involvement with U.S. banks.

At the request of the U.S. attorney, we have deferred temporarily assessment of substantial penalties against these individuals. We are not through. Our investigation is continuing.

Because many issues remain to be resolved by the Board and hearings conducted, our ability to answer questions about the evidence or our views of the evidence will be limited lest we say something that would prejudice those proceedings and prevent us from proceeding with our enforcement actions.

Fifth and finally, in assessing the BCCI matter, it is important to keep in mind that this is a case of systematic and deliberate criminal fraud. BCCI took maximum advantage of an unsupervised corporate structure to conceal and warehouse in bank secrecy jurisdictions overseas hundreds of millions of dollars in fraudulent transactions.

Although our bank examination powers allowed the Fed to detect poor operating controls and money laundering at the agencies, more extensive investigation efforts were required to uncover BCCI's ownership of stock.

However, using the authorities available to it, the Fed continued to investigate the matter, both here and abroad, and we now know that BCCI's top management was seriously concerned about the supervisory initiatives of the Federal Reserve.

Our persistence, however, paid off and we uncovered the truth. The Federal Reserve recognizes that the best way to deter the kind of fraud that occurred in BCCI is through criminal punishment that sends a loud and clear message to would-be offenders.

Throughout our investigation of BCCI, we have made criminal referrals wherever we discovered illegal activity, and have shared with criminal investigators at the Federal and State levels the evidence and investigative leads that we have gathered as well as our expertise and knowledge of this complex BCCI case.

We believe that this will be vital to any prosecution of BCCI and others involved in BCCI's illegal activities in the United States. We are greatly encouraged by the indictments secured by the New York County D.A. and the U.S. attorney in Tampa and are continuing to work with the D.A. and Justice in pursuing the BCCI fraud.

Mr. Taylor will now describe the Fed's supervision of BCCI's agencies.

[The prepared statement of Mr. Mattingly can be found in the appendix.]

The CHAIRMAN. Mr. Mattingly, your's, as well as the other gentlemen's testimony that was prepared and submitted to us was very extensive.

It will be presented for the record at this point in its entirety following your oral testimony.

Mr. Taylor.

**STATEMENT OF WILLIAM TAYLOR, STAFF DIRECTOR, DIVISION OF BANKING SUPERVISION AND REGULATION, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM**

Mr. TAYLOR. Thank you, Mr. Chairman.



Mr. Mattingly said that I will describe the Fed's supervision of BCCI, but I think he has just done so quite eloquently.

I think if I could save the committee's time so it would allow maximum time for questions, I would just make a few remarks.

One is to say that from the beginning, as Virgil has indicated, we did not consider BCCI to be qualified to own a bank or to take deposits from the general public in this country.

They did enter through State licensed agencies. The States are the primary supervisors of these agencies. We are the residual supervisors of those agencies. That in no way relinquishes or diminishes our responsibility to see that these agencies conduct their business in a proper way in this country, and so we accept full responsibility, despite the fact we are the residual supervisor and, of course, it is something we seek to correct in legislation.

Now, I would add that as far as the record goes, in 1987 we found indications of criminal activity at BCCI, and we reported it promptly.

After comprehensive exams, immediately subsequent to the raid in Tampa, we took formal steps to coordinate nationwide with our State colleagues a full and complete examination of BCCI's activities in the United States and immediately subsequent to that began to order them to wind down their operations with the eventual end of seeing them leave the country.

We acted promptly to coordinate and cooperate with foreign authorities when they came to the conclusion that the activities of BCCI were indeed such that the organization could not continue.

We worked with them very closely to assure that markets and international clearing mechanisms were not disturbed.

After years of looking for connections between BCCI and First American, we were finally able to secure documentary evidence necessary to bring charges against BCCI for illegal control of the shares of First American.

We have also taken steps to completely separate BCCI from First American. All of us at the Federal Reserve wish we had been able to do so earlier.

All of us see the need to have better communication with other agencies of the government and better information flows among international supervisors.

But in the end, with the cooperation of the States, our colleagues at the OCC and the FDIC, and our law enforcement agencies, and indeed foreign regulators, we did it. We put our people at risk; we are the ones who charged BCCI. We are the ones who stopped their operations in this country, and assisted in the orderly shutdown around the world.

Liabilities to depositors and creditors around the world total \$20 billion, a very unfortunate circumstance for many. BCCI's liabilities in this country are less than \$25 million. Are we satisfied? Certainly not. More needs to be looked at, improvements need to be made.

Are we finished? No. Our investigation continues, and we have additional evidence to take. And as soon as we find evidence, we will take additional action.

Fortunately, in this country we are required to follow due process. We are required to respect the rights of individuals, and we

are not able to prosecute people for rumor. But by God, when we have evidence, we will do so; and we have done so.

Nominee arrangements are tough to find in Lubbock, much less Luxembourg or London. Can we prevent fraud and concealment in the future?

Nominee arrangements are also difficult to detect, but with your help, we can address it, by passing the suggested legislation and by seeing that when criminal practice is discovered that we take strong measures to punish the wrongdoers so that those who might think of it in the future might pause.

The legislation that we have proposed and this committee has so generously supported says that the Federal Reserve shall approve entry into this country by foreign banking organizations, and it says that no entry shall occur unless that banking organization has consolidated supervision at home.

And finally, it provides for expulsion, indeed if the company does not operate in a legal and sensible fashion in this country. We need, as Virgil has indicated, more focus, I think, in the banking regulation business on criminal activity.

We need to beef up our investigative resources. There is just no question about that. The bulk of our activity to date has been with relation to safety and soundness, and I think that the events that keep occurring indicate to us a strong need to find a better way and put more resources into the investigative side of this business.

We in this process do not wish to abridge the rights of anyone, nor do we wish to endorse anyone. And the investigation continues, and as we find more, we will do more.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Taylor can be found in the appendix.]

The CHAIRMAN. Thank you, Mr. Taylor.

Mr. Black.

#### **STATEMENT OF ROBERT P. BLACK, PRESIDENT, FEDERAL RESERVE BANK OF RICHMOND**

Mr. BLACK. Mr. Chairman, I, too, have a formal written statement, and with your permission, I would like to enter that into the record.

The CHAIRMAN. Certainly, without objection. It is so ordered.

Mr. BLACK. I have a few brief remarks in which I would like to outline the role that the Federal Reserve Bank of Richmond has played in the case of BCCI's ownership of First American Bankshares.

At the time of its acquisition, First American Bankshares had subsidiary banks in five States and the District of Columbia. The largest volume of deposits were held in its bank in Virginia. Under the Bank Holding Company Act, the Federal Reserve Bank that supervises the bank in Virginia is the primary supervisor of the holding company. Since this is the Richmond Reserve Bank, it fell our job to conduct the primary supervision of First American Bank Shares through our regular inspection process.

When the application to acquire Financial General Bank Shares, as First American was then known, surfaced in 1981, we shared

the concerns of the rest of the Federal Reserve System and the other regulatory agencies regarding the possible ownership and control by BCCI.

We participated in the hearing of the application, and we were assured that the current and future role of BCCI would be that of serving only as an investment advisor to the owners.

Despite our misgivings, we saw no legal basis for denying the application, and we recommended to the Board that it be approved.

Since the company was acquired in 1982, the Federal Reserve Bank of Richmond has conducted eight inspections of that holding company.

On each occasion, the examiners have reviewed the company's records, remaining fully aware of the System's concern about possible control by BCCI.

While the Federal Reserve does not have primary responsibility for the supervision of any of the company's subsidiary banks since none are State member banks, we reviewed the reports of examination conducted by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the various State banking authorities.

In no instance, none whatsoever, were there adverse comments about ownership or evidence of transactions with BCCI, other than in the ordinary course of business.

Examinations and inspections over the years have indicated compliance with the commitments made by the investors to the Federal Reserve at the time of the original application.

Following BCCI's indictment for money laundering in its Florida offices and the surfacing of allegations of BCCI control in late 1988, the Richmond Reserve Bank conducted a very thorough inquiry in early 1989 into the relationship of BCCI and First American.

We reviewed the business relationships of the subsidiary banks. We interviewed the senior officers of First American, and they again stated that BCCI did not own or control First American.

Again, despite a very exhaustive examination by one of our most senior bank holding company inspection officers, we found nothing in the records that suggested that BCCI owned or controlled First American.

Late in 1990, the System received the first tangible documentary evidence of the existence of the loans to the shadow owners of CCAH, the holding company for First American, when a Board staff member was permitted to go to England and read the report of BCCI's external auditors there, on premises, without bringing back a copy of that report.

Since that time, the Federal Reserve Bank of Richmond has participated in a comprehensive, coordinated inspection of the holding company and examinations of the subsidiary banks at the same time.

Our Bank has had the role of directing the activities of a group of examiners. I might say that there were 52 of these from all 12 Federal Reserve Banks. They had an average experience of about 8 years, and this investigation has thus far consumed about 7 man-years of time.

It has been very thorough. In delving into these records, we have found no evidence of influence and control or any indications that

the banks were involved in any attempt on the part of the covert owners to influence others.

This investigation is ongoing, but preliminary findings disclose no abuse of the banks or significant exposure on the part of First American to BCCI.

Since the issuance of the Board of Governors' cease and desist orders against CCAH and BCCI in early 1991, the Federal Reserve Bank of Richmond has sought to ensure that First American's exposure to BCCI, which consisted of letters of credit and certain clearing balances at the New York subsidiary bank of First American, be wound down and liquidated in an orderly process.

As a result, when BCCI's offices were closed on July 5 of this year, First American's exposure had been reduced to a very modest amount, and that is to be liquidated by the end of this year.

Like many other financial institutions in and around Washington, First American has experienced significant losses on commercial real estate loans.

The Federal Reserve System has worked with Middle Eastern investors who owned First American through CCAH to obtain additional capital funds as added protection to depositors. During this period of time, the period since First American was acquired by these Middle Eastern investors—over \$500 million of capital has been injected into the company, \$112 million of which has been added since December of last year.

The company has recently sold its subsidiary bank in the State of Tennessee, and the proceeds of that sale are also going to be downstreamed, at least in part, to the individual banks that are subsidiaries of First American.

So from a balance sheet perspective, the investors have served as a source of strength. They have taken no dividends at any time during this period, and we can find no evidence of any significant exposure to BCCI.

Nevertheless, we are continuing to monitor the organization very carefully and are working very closely with the Board staff. I would like to add parenthetically here that we work more closely with the Board's staff in the case of examining than we do in the execution of most of our other responsibilities. From a statutory standpoint the Board of Governors really has the supervisory responsibility, which it delegates to the Reserve Banks in part, whereas we have full statutory responsibility for most of our other duties.

We will be working with the Board of Governors' staff and with other regulatory authorities to ensure that the companies remain on a sound basis and that control by BCCI is divested as soon as practicable.

I will be glad to respond, Mr. Chairman, to any questions that you or the other committee members may have.

[The prepared statement of Mr. Black can be found in the appendix.]

The CHAIRMAN. Thank you, Mr. Black.  
Mr. Forrestal.

**STATEMENT OF ROBERT P. FORRESTAL, PRESIDENT, FEDERAL  
RESERVE BANK OF ATLANTA**

Mr. FORRESTAL. Thank you, Mr. Chairman, members of the committee.

In accordance with the request contained in your letter of invitation, I am very pleased to appear today to discuss with you the role of the Federal Reserve Bank of Atlanta in the supervision of the Florida offices of the Bank of Credit and Commerce International, BCCI, and in the supervision of NBG Financial Corporation, which was the parent holding company of the National Bank of Georgia, which in turn was the predecessor of the First American Bank of Georgia.

Mr. Chairman, as with the others, I have a full text which I would request be placed in the record.

The CHAIRMAN. Certainly, without objection.

Mr. FORRESTAL. I will attempt to shorten it by reading excerpts from that testimony. Mr. Chairman, my remarks will first address BCCI. Since the previous witnesses have set forth the supervisory and regulatory framework within which the Federal Reserve System operates with respect to its supervision of international branches and agencies, I am going to confine my remarks regarding BCCI to the Atlanta Reserve Bank's supervision and regulation of BCCI offices in Miami, in Boca Raton, and in Tampa, FL.

Just to set the record completely clear, the BCCI Miami agency opened in March 1982; the Boca Raton agency opened in September 1983; and the Tampa agency opened in June 1984.

Each of these offices, Mr. Chairman, was licensed by the Comptroller's Office of the Department of Banking and Finance of the State of Florida. The Miami agency managed and coordinated the activities of the Tampa and Boca Raton offices, including regulatory reporting to the Federal Reserve.

From the time of its opening, the BCCI Miami office, the Atlanta Reserve Bank carried out its supervisory responsibilities pursuant to the International Banking Act of 1978.

And, as was the case with other Florida agencies under that Act, our responsibility as the residual supervisor of the State-licensed agencies was certainly to assure that the BCCI Florida offices received timely examinations from the licensing authority, the State of Florida.

During that time, our examiners participated in these examinations in a limited manner. Our participation normally consisted of a 1- or 2-day visitation of the agency in which we conducted a review of financial reports submitted to the Reserve Bank, and a review of compliance with Federal banking laws, including, of course, the Bank Secrecy Act.

Irregularities in compliance with the Bank Secrecy Act, as well as technical violations were detected at various times during our visitations and resulted in two criminal referrals, which I will describe in greater detail in a moment.

In 1983, the Treasury Department referred numerous institutions, including BCCI Miami, to our attention, after finding technical difficulties in their reporting of transactions, subject to the Financial Recordkeeping Act.

The deficiencies basically concerned improper completion of forms designed to report individual cash transactions of \$10,000 or more. We found additional technical compliance problems at BCCI Miami in a visit in 1984, in which examiners noted the agency had failed to file currency transaction forms for three cash transactions over \$10,000.

The agency filed the forms during the examination, before the examination was concluded. Both cases, in our judgment, represented isolated, technical problems, and did not raise suspicions of money laundering.

In each instance, agency management took corrective action. In March 1985, while visiting during the State's examination, Reserve Bank examiners detected suspicious transactions carried out by a customer of BCCI Miami.

After becoming aware of the transactions, the agency ceased doing business with the customer, and to our knowledge, this customer has not been implicated in subsequent indictments of BCCI.

Following the receipt in August 1985 of the State's March examination, which noted continued asset problems, the Atlanta Reserve Bank conducted an independent examination of the Miami office in October 1985.

This examination revealed a significant deterioration in asset quality. However, no further evidence of suspicious transactions was noted at that time. While participating in an April 1987 examination of BCCI Miami, our examiners discovered possible money laundering transactions that appeared to be structured to evade the reporting requirements of the law.

The transactions were detected in a review of checks and money orders sent from BCCI Panama to BCCI Miami for payment, and those details, Mr. Chairman, can be—are in the statement and can be furnished later, but in the interest of time, I will not go into the nitty-gritty of those transactions.

A criminal referral concerning the activities discovered at the Miami agency was filed with the U.S. Attorney's Office in Miami and with the Federal Bureau of Investigation in North Miami Beach on May 18, 1987.

In October 1988, as you know, the U.S. attorney in Tampa issued indictments against BCCI and several employees for money laundering. In connection with the indictments, U.S. Customs Agents searched the offices of BCCI in Florida over the weekend of October 8.

Reserve Bank examiners, Atlanta Bank examiners entered the Miami, Boca Raton and Tampa agencies to monitor liquidity and to review operations in the week following the search by law enforcement officials, and in fact remained on site for several weeks until the situation stabilized.

Our efforts in Atlanta were part of a System review of all of BCCI's U.S. offices. During this period, activities resulting in the Atlanta Reserve Bank's second criminal referral were discovered. Federal Reserve examiners detected two separate series of suspicious transactions while on site at BCCI Boca Raton, and both of these cases were quite similar to the scheme that we had detected in Miami in 1987.

The second criminal referral again was filed on November 7, 1988, with the U.S. attorneys in Tampa and Miami, and with the FBI. Those reports were subsequently furnished by the Board of Governors to the Internal Revenue Service. As a result of the systems review of BCCI's operations in 1988, a cease and desist order against BCCI was issued by the Board of Governors on June 12, 1989, requiring BCCI to strengthen U.S. operations and enforcing compliance with the Bank Secrecy Act.

The Reserve Bank again conducted an independent examination of BCCI Miami, in September 1989, to assess the condition of the agency and determine compliance with the Board's order. This examination was coordinated with other Reserve Banks' examination of the U.S. offices of BCCI.

Our examiners noted significant asset quality problems and weaknesses in credit administration, internal controls, and the audit function. The need for further examination of BCCI's Florida offices was eliminated when the Tampa and Boca Raton offices closed in September 1989, and the Miami agency closed in January 1991.

Now, Mr. Chairman, if I may, I would like to turn to the Reserve Bank's supervision of the National Bank of Georgia, or more accurately, to the holding company that supervised that national bank.

Mr. Ghaith Pharaon, a Saudi Arabian national, acquired a 60-percent interest in the National Bank of Georgia in 1978, and continued to acquire stock in that bank until by the end of December 1980, he owned 98.6-percent of total outstanding shares.

Because National Bank of Georgia was a national bank, the Comptroller of the Currency, OCC, was its primary regulator.

Mr. Pharaon's banking interests first came under the jurisdiction of the Atlanta Reserve Bank in July 1981, when a bank holding company which Mr. Pharaon owned filed an application to become a bank holding company by acquiring an existing bank holding company and its bank subsidiary in a county in Georgia.

This was not, I should interject, not NBG at that time. The Reserve Bank approved the application for this acquisition of a holding company in October 1981 based on the following factors:

First, the positive impact of Mr. Pharaon's ownership on his existing banking interests, as evidenced by the OCC's recognition of the improved condition of NBG, and Pharaon's injection of \$3 million to improve its capital; and second, Mr. Pharaon's ability to repay debt associated with the acquisition and provide continued support to the holding company.

Mr. Pharaon's financial statement showed a net worth in excess of \$100 million, not including the bulk of his assets, which were in Saudi Arabia. Pursuant to the application, this holding company acquired the bank, and thus became subject to the Reserve Bank's supervision.

The Federal Reserve Bank of Atlanta's supervision and regulation responsibility for the parent holding company of NBG began in November 1981, when Mr. Pharaon filed applications to place his stock in NBG under his existing holding company, then called GRP, and to acquire two more banks in Georgia.

In evaluating the applications, the Atlanta Reserve Bank again considered reports of examination issued by NBG's primary super-

visor, the Office of Comptroller of the Currency, which indicated that NBG had improved under Pharaon's ownership and again reviewed Pharaon's ability to financially support the bank by requesting a summary of sources of his most recent year's income, and a list of his annual obligations.

Pharaon again provided evidence of a non-Saudi net worth in excess of \$100 million, and committed to make an additional capital injection of \$10 million into the NBG. The Board of Governors of the Federal Reserve System approved the application in March 1982, and the parent holding company of NBG therefore came under the Federal Reserve's supervision.

The OCC, of course, continued to remain as the primary regulator of NBG, the bank, while the Reserve Bank directly supervised the parent holding company. Now, Mr. Chairman, in response to the committee's specific question, let me state that during this entire period, there was no information or evidence to indicate that Mr. Pharaon was not in fact the owner of NBG, or that his sources of funds for acquisitions differed from that which he reported.

Mr. Pharaon had been the owner of record of NBG for several years prior to the formation of the holding company, and he had established a satisfactory record during his control of the bank, as evidenced by the improvement in condition of the bank; his ability to make capital injections, and his ability to defer dividends.

With respect to our inspection and supervision, let me just say a few words. The activities and financial condition of NBG parent holding company were monitored by the Federal Reserve Bank of Atlanta through inspections of the parent holding company, NBG Financial Corp., as well as examinations of some subsidiary organizations.

The Bank Holding Company Supervision Program focuses on assessing the condition of the bank holding company and determining its ability to serve as a source of strength to its subsidiary.

The Atlanta Reserve Bank inspected NBG's holding company once each year from 1983 to 1986. Each inspection considered the ability of the bank holding company to support its bank's subsidiaries and found the contribution of the sole indirect shareholder, Mr. Ghaith Pharaon, to be positive.

Never in the course of our supervision of the parent holding company, including reviews of the examination reports of the primary regulator, the OCC, did the Atlanta Reserve Bank discover any information indicating BCCI ownership of NBG Financial Corp.

In keeping with the regulatory structure prescribed in the Bank Holding Company Act and the International Banking Act of 1978, the Reserve Bank has maintained regular contact with the State of Florida and with the Comptroller of the Currency in its routine supervision of BCCI and NBG's holding company, relying as directed by statute on the reports of these other supervisory agencies whenever possible.

When concerns surrounding the condition of BCCI's Florida agencies arose, the Atlanta Reserve Bank departed from its usual residual supervision and conducted an independent examination to directly assess BCCI's condition.

The Reserve Bank continues to participate in coordinated investigations of BCCI and related parties within the Federal Reserve



System, and it is also continuing to cooperate with law enforcement agencies in their ongoing investigations of BCCI and NBG.

In summary, Mr. Chairman, the Federal Reserve Bank of Atlanta supervised BCCI's and NBG's activities in our District as directed by the International Banking Act of 1978 and the Bank Holding Company Act. We did make criminal referrals of suspicious activity and increased our on-site presence as warranted.

With respect to NBG, later First American, we evaluated on several occasions the owner of record, Mr. Pharaon, and had every reason to believe that he was a person of substance financially and that he was acting on his own behalf.

Throughout this period, we have cooperated with law enforcement agencies in every way possible, and even at the present time are contributing an examiner to the U.S. attorney's ongoing efforts in Atlanta.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, sir.

[The prepared statement of Mr. Forrestal can be found in the appendix.]

The CHAIRMAN. Mr. Thomson.

**STATEMENT OF THOMAS D. THOMSON, EXECUTIVE VICE  
PRESIDENT, FEDERAL RESERVE BANK OF SAN FRANCISCO**

Mr. THOMSON. Thank you, Mr. Chairman.

I, too, have a statement to be entered into the record.

The CHAIRMAN. Certainly. Without objection, every statement that has been given to us in writing, and we want to thank you for that because we have examined them, will be in the record as you gave them to us.

Mr. THOMSON. Thank you.

I will attempt to summarize my testimony, and I will focus on the most important aspects of the Federal Reserve Bank of San Francisco's role in the supervision and regulation of BCCI and in the regulation of Independence Bank in Encino, California.

BCCI presence in the 12th District began in September 1981, when one of its subsidiaries opened an office, an agency in San Francisco licensed by the State of California. This agency was converted into a direct office of BCCI in June 1985.

In February 1983, BCCI established an agency office in Los Angeles. Our Reserve Bank and the California State Banking Department shared examination responsibilities for both agencies under the provisions of the International Banking Act of 1978. Our oversight efforts intensified after the notification of BCCI indictments in October 1988 in Tampa, FL.

Our Reserve Bank conducted special examinations of both the Los Angeles and San Francisco agencies in conjunction with investigation of BCCI's money laundering activities. These examinations focused on a review of the agencies' policies and procedures to ensure compliance with the Bank Secrecy Act and a review of currency transactions that had occurred within the preceding year.

No evidence warranting the filing of the criminal referral was discovered at either agency. However, based particularly on our findings of technical violations, our examiners participated in

drafting a memorandum of understanding which was issued to BCCI by the California State Banking Department on February 14, 1989, and a cease and desist order which was issued to BCCI by the Federal Reserve Board on June 12, 1989.

The indictments and enforcement actions increased BCCI's costs and contributed to the decision by BCCI to close the San Francisco office. These assets, together with those in the Miami office, were transferred to the Los Angeles office in December 1990.

In February 1991, in response to the Federal Reserve Board's staff-coordinated supervisory efforts, we examined the Los Angeles agency. Particular attention was paid to testing compliance with State and Federal laws and regulations, including the Bank Secrecy Act.

This examination, like other recent examinations, disclosed weakness in asset quality, internal controls and management. On July 5, 1991, the State of California closed the Los Angeles office in conjunction with coordinated closure of BCCI offices worldwide.

Our examiners have remained on site at the Los Angeles office since the start of the February 19, 1991 examination. They are continuing to review the agency's records and share the information with the appropriate Federal and State judicial authorities, other regulators and Congress.

Turning now to Independence Bank, it is a State-chartered non-member bank. Accordingly, the FDIC and the California State Banking Department are its primary regulators and supervisors, and were responsible for reviewing its acquisition by Ghaith Pharaon in November 1985.

We have not examined Independence Bank or participated in examinations by the California State Banking Department or the FDIC. Our relationship has been essentially limited to an application in 1986 to form a bank holding company.

In response to both the draft and final applications, we voiced significant concerns related to the proposed high debt level and low consolidated capital ratios, and requested a number of commitments.

Apparently our discussion with the applicant and our request for commitments discouraged the applicant from proceeding, for the applicant failed to provide either the commitments or necessary information to complete the application.

On December 3, 1986, we returned the application to the applicant, and no further action was taken. In summary, our efforts to determine the ownership of Independence Bank were limited, as we had no direct supervisory or regulatory role with the bank, other than its application in 1986 to form a bank holding company.

The application never reached the stage at which the System would have investigated and formed conclusions about the management and ownership structure of Independence Bank. The Reserve Bank's supervision and regulation of BCCI was concentrated on our inside examination program adopted with the cooperation of the State of California Banking Department.

Our role in drafting enforcement actions issued against BCCI, our intensified oversight efforts in light of money laundering indictments in 1988, and our continuous on-site presence commencing

with the examination of the Los Angeles agency in February 1991, that on-site presence exists until today.

Thank you.

The CHAIRMAN. Thank you, Mr. Thomson, very much.

[The prepared statement of Mr. Thomson referred to can be found in the appendix.]

The CHAIRMAN. Mr. Corrigan.

**STATEMENT OF E. GERALD CORRIGAN, PRESIDENT, FEDERAL  
RESERVE BANK OF NEW YORK**

Mr. CORRIGAN. Thank you, Mr. Chairman.

Giving a statement at this hour gives me a little bit of a feeling that the whole world is a tuxedo and I am a brown shoe, but let me try, anyway, to proceed.

For starters, let me say that beginning at the time of the October 1988 indictment of BCCI in Tampa, and continuing to this day, the Federal Reserve Bank of New York has been intimately involved in virtually every aspect of the Federal Reserve investigation into the BCCI.

Over the past 12 to 15 months, I personally have been significantly involved in the investigation, often on a daily basis. My involvement has entailed frequent consultations with my own staff, with Messrs. Mattingly and Taylor, with Chairman Greenspan, with senior regulatory authorities from abroad, and from time to time with Robert Morgenthau, the New York County district attorney.

And here I want to emphasize something Mr. Mattingly said earlier, and that is how absolutely important and constructive our relationship with Mr. Morgenthau and his staff has been throughout this investigation.

In that context, I also would like to pick up on one of Mr. Hubbard's earlier questions, and that has to do with the circumstances surrounding the Price Waterhouse report in December 1990. We knew, and we now know in spades, that BCCI was bound and determined to keep that Price Waterhouse report in question away from any authorities in the United States of America.

We went to enormous lengths to get the report. We were frustrated, but we did agree to send a Federal Reserve representative to London to review that report on the premises of BCCI. We wanted to know what was in it.

We had agreed at the time that we would not take the report with us, but we did want to know what was in it. Within days of that occurring, a senior official of the Federal Reserve Bank of New York discussed in detail the results of that visit with Mr. Morgenthau and his staff.

So, in that context as well, the cooperation with Mr. Morgenthau was close and intimate.

Let me also, Mr. Chairman, by way of trying to pull this together a bit, share with the committee a few of my own observations on the process, its results, and its implications for the future.

For starters, it should be, and I think it is recognized, that the scope and complexity of this investigation, together with the unimaginable patterns of deceit, lies, misrepresentations, fraud, and

criminality that had to be overcome in order to get hard evidence of wrongdoing, is certainly unprecedented in my experience, and probably in the 77-year history of the Fed.

Indeed, the Fed's investigators were engaged, successfully, I might add, in an investigation that would be considered very formidable by even the most sophisticated law enforcement authorities in the world. But as I like to point out, we got them.

Now, having said that, it's only appropriate to ask why it took so long to produce the results that are now before us. In part, the answer to that lies in the patterns of lies and deceit that we had to get through to get at the truth.

And in that regard, let me again emphasize that there is no other governmental institution here or abroad that has had a greater or faster measure of success in getting at the truth than has the Fed, even though some of those institutions have considerably more experience and discovery power in this type of investigation than does the Fed.

But even allowing for that, there are a couple of other things that I think should be important to the committee and indeed to the American public.

First, we wanted to be absolutely sure that our efforts were always consistent with the dictates of due process. This is a Nation of laws. Rumors, allegations, unsupported accusations, and even claims made by informants or insiders do not constitute evidence of wrongdoing.

Obtaining that hard evidence was an extraordinarily difficult task that would take the Fed's lead investigative personnel to locations throughout the United States, Europe, and the Middle East.

It entailed those investigators taking thousands of pages of statements and depositions from individuals here and abroad, as well as reviewing tens of thousands of pages of documents.

Getting that evidence was not easy, but it was done.

Second, from the earliest stages of the active investigation of the money laundering problems in 1987, we had to be very careful that our investigative efforts did not in any way compromise the efforts of others.

Third, as the scope of the Feds and other investigations widened, and as allegations of serious criminal activities on the part of BCCI began to emerge, we had to be concerned about protecting the confidentiality and well-being of witnesses. In the latter stages of the investigation, Mr. Chairman, I must tell you that we, or at least I, were very mindful of the need to be sensitive to the well-being of the officials in the Federal Reserve who were conducting those investigations.

And if I may say, Mr. Chairman, I think the Nation owes a great debt of gratitude to the individuals who undertook that effort.

I might also say that we were concerned throughout this investigation about the possibility that documentary evidence so vital to our case might be destroyed.

Finally, the possibility exists that there may have been information available to other official institutions that might have expedited the Fed's investigation had such information reached the Fed on a more timely basis.

Taken together, these factors, especially in a setting of fraud and deceit, made the investigation frustratingly slow at times. And, with the benefit of hindsight, there probably are some things that we might have done differently or in a different order that might have saved some time.

But even under optimal conditions, I believe firmly that any such time saved would be measured in months and not years.

On the other hand, the experience gained from this investigation surely has influenced our attitudes regarding certain aspects of banking law and supervisory policies.

Mr. Mattingly and Mr. Taylor have already touched on the legislative side of that. Let me not belabor that. But I do want to say that in the area of lessons learned, another area of great importance that has been brought into even sharper focus by the BCCI affair is the need to strengthen and further coordinate international bank supervisory programs and policies.

As the committee members may know, in July of this year, I was named by the Group of Ten central bank governors to the position of chairman of the Basle Committee on Banking Supervision.

Last week, that committee had its first regularly scheduled meeting since I was designated its chairman, and at the meeting, not surprisingly, there was a lengthy discussion of the BCCI affair and the lessons to be learned from it.

On the basis of that discussion, the committee hopes to have finished by its December meeting an issues paper that will focus on a number of things that are spelled out in detail in the point statement that Mr. Taylor and Mr. Mattingly and I provided to the committee.

Without going into those details, I hope and expect that this issues paper will be finished for the committee in December, but I want to emphasize that that paper will not, at that point, contain recommendations.

Rather, I have in mind that the discussion in December will help the committee to shape a follow-up paper with recommendations that would be considered in the first half of next year.

In saying this, Mr. Chairman, I want to caution about expecting too much too soon. Getting 11 countries to agree on those complex matters that strike so close to legitimate issues of national prerogative, if not national sovereignty, will not be easy.

I cannot, Mr. Chairman, in good conscience leave the subject of international coordination of banking supervision without saying a brief word about what I know will be a sensitive subject.

I and all members of the international community of banking supervisors deeply respect the prerogatives of legislative bodies, including their prerogatives to seek and obtain information.

By the same token, it is certainly important that the manner in which that prerogative is exercised in a cross-border setting is fully sensitive to the laws and traditions of other countries, for if it is not, the necessary process of sharing supervisory information across national boundaries can be seriously impaired.

In closing, Mr. Chairman, let me add one further point. In a nation of laws and due process, no system of laws and regulations can prevent crime or wrongdoing.

That is one of the prices we choose to pay for the enormous benefits of a free and open society that places such a high premium on individual rights.

Preserving a free and open society implies that when transgressions occur, those responsible for administering laws and regulations must see to it that violators are found out and are punished.

I would hope that the message growing out of the Fed's persistent, vigorous, and unrelenting investigation of the BCCI affair would be clear to all, and that message is that we will not tolerate this kind of behavior, no matter how formidable the obstacles put in the way of our efforts to get at the truth.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Corrigan can be found in the appendix.]

The CHAIRMAN. Thank you, sir.

Well, let's see. Mr. Forrestal took about 15 minutes, and you, Mr. Corrigan, about 15 minutes, and Mr. Mattingly took just about 5 minutes, which I wanted to thank you for.

But nobody was going to restrain you in your full and complete presentation as your own conscience dictated it.

First, I want to refer to a matter that was printed in today's morning newspaper that the Federal Reserve is a poor and underfunded government agency.

I want to point out that the Federal Reserve has \$25 billion to fund its operation if it wants to. There are no limits on the amount of money the Federal Reserve can spend on bank supervision.

The Federal Reserve has never complained to Congress that it does not have adequate resources to supervise banks. The Federal Reserve decides on its own how much it will spend on supervision.

If the Federal Reserve does not have sufficient resources to supervise banks, they have no one else to blame but themselves.

My question is, have any of you ever been told not to spend as much money as is needed to do a good job in supervising banks?

Mr. Taylor.

Mr. TAYLOR. Mr. Chairman, I would be pleased to answer that. The answer to the question is very simple. No. We have not been limited.

I might add to that that we are an agency that pays very close attention to the expenses that we incur, because we are indeed spending the public's money.

And so at the Federal Reserve expense control is a very, very important item.

I might add that I will make very good use of the statement you just made in the 1992 budget sessions which start next week.

And I greatly appreciate it, because it is important. And I do think we have had very good support from our Board and our Chairman. And I think that support will be continuing, but your statement will certainly help.

The CHAIRMAN. Well, then, what you are saying is that today's statement in the newspaper has no relevance to the actual facts? That is, you are neither poor nor restricted in the amount of funds, that if you wish, you can devote to bank supervision, assuming that you are an economical, efficient, prudent, restrained spender.

Now, we would never accuse you of being a spender.

Mr. TAYLOR. I think the record would show I always want more money.

The CHAIRMAN. Pardon?

Mr. TAYLOR. I always want more money for supervision, but I think the record will show that over the last certainly 6 or 7 years, that the Federal Reserve Board has provided and the Federal Reserve Banks have provided a pretty broad-based increase in the supervisory resources.

Now, whether or not we can increase those resources in a meaningful way in relation to the way the problems have increased is something we continue to tackle.

The CHAIRMAN. Well, if there are limits, who imposes the limits?

Mr. TAYLOR. I am just saying the limits are imposed by the number of problems that have surfaced.

The 1980's have produced a tremendous number of banking problems, and to be able to staff adequately and quickly is difficult.

I think all the agencies have had trouble. We have expanded our resources. It is our plan to continue to request more resources and to improve our capability to conduct these types of investigations.

The CHAIRMAN. In your testimony, you said that the regulatory system and the mishmash that exists in our country has long since broken down.

I mean, it has long outlived its use. We have a basic structure or chassis that was constructed, in one case as far back as the Civil War, and in most of the other cases, the Depression period, prewar.

And our attempts to deal with that priority up to now have been frustrated, and in fact, one of the big failures of our banking bill was the fact that we weren't able to address the question of regulatory reform.

If there was going to be a restructuring of the activities in the financial world, we want to make sure we know to what extent they will be and then afford the proper and sufficient regulatory environment.

Now, the awesome aspect of this is that while we are here, assembled this morning, we have somewhere between \$750 and \$800 million of this kind of money in this country. It is high leverage money. It can be leveraged in unbelievable ways.

And corollary to that is a fact that still has not penetrated the level of consciousness that I thought we had tried to stress in the BNL case, the Banca Nazionale, and that is that these activities, quote, "foreign bank activities or foreign money," are really representative of government-owned entities, almost every one of them.

The same persons, for instance, in the context of the ownership of the Bank of Georgia or the others in the Saudi Arabia case, these individuals also are government officials. And in those countries, the ruling families and the central banks are one and the same.

And Mr. Corrigan, it was you who told us at one point or another, at least to our staffers, that it was none of our business to try to find out how much Kuwaiti money was in this country or in any other foreign banks.

So you know, you cannot have it both ways. You cannot say look, in dealing with these other foreign governments, our problem is

that the Congress doesn't provide, because it has access to information and these other entities don't.

You cannot then tell us that in our effort to assess the range, the velocity, the maneuverability, the leverage of these monies can be used for everything from agriculture credits to an agency bank in Georgia that ended up in procuring armament, chemical ingredients for warfare, to Iraq.

There is nobody here that can say Iraq, even at this moment, Saddam Hussein doesn't have a few million dollars around in our country.

We don't know. This is the awesome thing. This is what we want to get at.

Now we are not going to get it here, Mr. Corrigan, by on the one hand saying well, you know, we have said this, but the Congress—and trying to shift the blame over here. That is not acceptable.

I think we are going to have to get away from that. What I have noticed in the testimony today, for instance, I wanted to compliment you on, Mr. Thomson. You pointed out as early as in 1989 in the case of the San Francisco entity, because you used the phrase "inside investigative resources or procedure," in conjunction with the Banking Commission of California.

Now, in your case, Mr. Forrestal, you used the phrase "system review," that you resorted to your system review to look into the case there of BCCI, as I recall.

Now, what do you mean by system review? How does that differ from Mr. Thomson's definition of his method of approach?

Mr. FORRESTAL. I think we may be talking about two separate instances, Mr. Chairman.

To back up to the very beginning, as I indicated in my statement, under the International Banking Act, the Reserve Banks are partners, as it were, with the States.

But the States who license these foreign agencies are the primary regulators, and under the law as we interpret it, we as residual examiners. Now that would mean that we could simply sit back and take written reports from the State.

However, in the case of the Atlanta Reserve Bank, we did, in fact, accompany these State examiners. And we were on site for a limited purpose to ensure compliance with Federal Reserve banking laws and especially the Bank Secrecy Act and in effect to oversee to some extent what the State was doing and to ensure that the State was carrying out a full-scale and proper examination.

Later on, after the indictments were made, there was a System effort where examiners from many Reserve Banks conducted simultaneous examinations; and that was the System review that I was referring to.

But in the case of the Atlanta Reserve Bank we conducted full examinations of the Miami and the Boca Raton agency; we not only were in those institutions with the State authorities, cooperating with them, receiving their reports, making our own judgments, but as I have said, conducting our own examination because of evidence that we had that there was something amiss.

The CHAIRMAN. I realize that whether it is the Congress or any bureau, agency, or corporate activity, there is an inertia there and a resistance to a—it seems to be a criticism of the activities.



In the case of the BNL, we discovered that.

We discovered that because of the peculiar mishmash of regulatory oversight, neither the State Banking Committee had the resources, so they could easily be pulled, but neither did the Fed; on the other hand, with the main Italian Bank's original headquarters in New York, but then when we would want to ascertain it, there was a resistance.

First, the Justice Department had a letter from the Attorney General who first wanted to talk to me privately.

I don't do that.

I am just the chairman, and I can't speak for the committee privately.

Unless the whole committee was brought in, I wasn't going to meet with him.

So he finally said, look, we would like for you to drop the committee's consideration and investigation of the BNL.

Well, I had to remind him of the Constitution. That sounds ironic for the Attorney General to have to be reminded of the Constitution, but we did.

Then when we asked the Fed, the Fed said, "Well, the Justice Department says we shouldn't, because it might compromise their investigation."

We had to go through all of that.

We met considerable resistance.

Finally, though, I will say that finally, the Federal officials recognized that we did have to have some legal improvements.

You recall that, Mr. Mattingly.

Mr. MATTINGLY. Sure do.

The CHAIRMAN. And we finally did.

But after we get to the discussion and the amendatory process of what we have said is a pretty good model of what we should approach, then we get an argument between the Treasury and the Fed.

Treasury is from the standpoint that there is an international question, and reciprocity, in the case of one issue in this—yes, the grandfathered banks, you will recall that issue.

Now, we need help here. We need to have some unified and consistent executive branch plus Federal Reserve.

We know our limits. We are not trying to exceed them. We are not interested in trying to find who did it here or there or there.

That is not our business, but we are absolutely determined at this time and under this present watch to do everything that we should be doing and in some cases should have been doing for 20 years to shape up the statutory basis for the ability of the regulator to act with quick dispatch, with total freedom, and with no political interference.

The other specifics, the article this morning bringing out this question that Mr. Hubbard referred to, I am going to leave it to them, I consider those questions rabbits that are going out there, and I am not going to chase every one of those rabbits.

Every time a rabbit was turned loose, of course, you have skilled people like Mr. Altman and Mr. Clifford to do it, but here is the awesome thing.

Even at this point, and with the massive treasury of \$45 million plus that BCCI was able to muster and Mr. Clifford orchestrated, they got—the Justice Department was in on it—they got a plea bargain.

But there was a condition to the plea bargain, and the Justice Department committed itself, and it has not kept that commitment.

The Justice Department was to follow through, and they haven't done it.

So this committee then will have to go and summon forth and follow through on that, because we may have to refer that part to the Judiciary Committee. It looks like the recent Judiciary Subcommittee's report didn't say anything, and it didn't get behind that laxity in the follow-through in the Justice Department.

These are things that affect us.

Now, I am delighted to accept the offer, Mr. Mattingly. Time is awasting.

We have to start as of the day before yesterday to immediately address what we have to do now to change, modify, and strengthen the amendments that this committee has already approved in H.R. 6.

I am looking forward to that.

We want to do it in a cooperative manner and in the spirit of goodwill.

I hope that will be the case.

Mr. Wylie.

Mr. WYLIE. Mr. Chairman, I certainly agree with that last statement.

We referred to the article in the paper this morning, BCCI has taken First American, and Mr. Corrigan alluded to this question, but in the paper, it says that the Bank of England knew about BCCI's ownership of First American in 1988.

When did the Bank of England inform the Fed about this revelation, and when did you first learn from the Bank of England the tie-in between BCCI and First American?

Mr. CORRIGAN. It would appear, based on a telephone conversation that I had with the Bank of England this morning, that the press report you are referring to may not be accurate.

The indications I received this morning were that the first information of this sort that reached the Bank of England was a year later.

It was later in 1990, not late in 1989, but that is a question that records will have to be looked at to make sure.

Mr. MATTINGLY. Mr. Wylie, if I can, the report, the newspaper report you are talking about indicated that the Bank of England had Price Waterhouse reports in prior years from 1987 and 1988.

Those reports indicated that there were loans by BCCI to CCAH shareholders secured by the stock.

That information was in Price Waterhouse reports for the period—certainly they were in the 1988 and 1989 reports.

To my knowledge, and I have checked this with every person I can at the Fed, information about those loans—was not transmitted to the Fed by the Bank of England until 1991.

Mr. WYLIE. The article also mentioned you would be expected to argue you did the best you could with your staff.

You didn't argue that, but it also says that the staff was lied to repeatedly going back to 1981.

You didn't say that exactly either.

You said there were some untruthful statements made. From your testimony, Mr. Taylor, I think this may have been the case, but I am not sure.

Were you lied to? When? And by whom?

Mr. MATTINGLY. If I can, I would like to answer that.

Again, we have, as you know, an ongoing enforcement proceeding that we have issued against BCCI and a number of other people and the Fed still has in front of it the question of whether to issue additional enforcement actions growing out of that application. But, we have to be careful about what we say so as not to prejudice those ongoing proceedings.

But to answer your question, the evidence that we have, the hard evidence we have all talked about, indicates that—first, we were told there would be no loans by BCCI to finance those people's purchase of that stock.

That is absolutely clear, and I don't think it is disputed by anybody.

That is a fact.

The second fact, we have—

Mr. WYLIE. By whom were you told that?

Mr. MATTINGLY. We were told that in the official sworn application filed with the Fed, very clearly.

We were told that by the lawyers for these people.

That would be Mr. Altman and—

Mr. WYLIE. Who else besides the application and the lawyers, Mr. Mattingly?

Mr. MATTINGLY. Mr. Altman and Mr. Clifford.

The CHAIRMAN. Will you yield to me?

This is what I don't understand, Mr. Mattingly.

Of course, you had this memorandum from Mr. McQueen and he is saying we ought to get these guys.

Well, apparently you did, but then Mr. Clifford comes in in his majestic grandeur and everybody sits there dazzled.

In this case, you are asking Mr. Altman, did you do it?

Well, what is he going to say?

It is like saying to a bank robber, did you rob a bank? He is not going to say he did. What I don't get is, given this background and the fact that you had these memos, why Clifford and Altman weren't pursued a little bit harder.

Thank you.

Mr. WYLIE. I thank the good gentleman, and I think it does lead into what we need to know.

Could you please tell us the series of events that led up to the finding that BCCI had lent money for the purchase of First American stock?

Mr. TAYLOR. Mr. Wylie, following up Virgil's answer, because he is the one that I think can best answer it, we had to establish what kind of proof we needed to have strong enough indication that the commitments we were given were violated.

We had to establish, in documentary fashion that indeed the investors borrowed money from BCCI to effect the original transaction.

So it is not a case of establishing they borrowed from BCCI.

There was no commitment not to borrow from BCCI secured by the stock of CCAH if indeed the proceeds of the loans were used for some other purpose.

We had to establish, and it was a very tight requirement, that they borrowed money for the purpose of effecting the acquisition of CCAH.

Is that correct, Virgil?

Mr. MATTINGLY. That is correct.

I was going to say, the evidence that we have uncovered, the evidence we reviewed, we believe suggests that from the very beginning, BCCI was lending to these investors to purchase the stock.

That is what the evidence we have reviewed indicates.

We have provided that evidence to the committee.

Mr. WYLIE. I want to put this in the best context possible here.

Were you surprised when you discovered that Clifford and Altman bought stock with BCCI loans?

Mr. MATTINGLY. Yes.

I believe I was the first person at the Fed that received that information, and I was surprised, yes.

Mr. WYLIE. How did you find it out?

Mr. MATTINGLY. After we got the—we went to London and we got the confirmation in the report that there were loans.

Within 10 days, the lawyers for BCCI came in to have a meeting with me.

And take——

Mr. WYLIE. Lawyers for BCCI?

That would be Clifford and Altman?

Mr. MATTINGLY. No.

By this time, BCCI has hired another law firm.

Mr. STEPHEN NEAL. What date?

Mr. MATTINGLY. That would have been on December 21, 1990.

I will never forget it.

They came in and they——

Mr. WYLIE. Four days before Christmas.

Mr. MATTINGLY. They came in, they handed me the official list of the alleged owners of First American.

They went down the list and they pointed out to me everyone of those people who had borrowed money.

The loans totaled \$1.3 billion.

They told me the loans were nonperforming, that no interest had ever been received on the loans.

You can imagine what I said.

Now, Mr. Clifford's and Mr. Altman's names were on that list, but there wasn't any indication at that time that the BCCI had lent money to them.

I asked them, I want the loan files.

In very early January, they came back to me. This is the Patton-Boggs lawyers for BCCI. They gave me a document. I believe the document is dated January 10. It is a bunch of schedules of all

these 15 investors, and it shows that over the course of years, BCCI lent money to each of these investors to buy First American stock.

I thumbed through the schedule. I got to the end. There were two sheets. One was for Mr. Altman and one was for Mr. Clifford, and the schedules showed BCCI loans to those two individuals. That is the first indication anybody at the Fed had of loans by BCCI to those two individuals.

Mr. WYLIE. What you are telling us, in effect, is that you had to go 4,000 miles after all this correspondence and meetings and everything to find this information, is that right?

Mr. MATTINGLY. I am telling you that. Yes. We got the information through the lawyers for the BCCI people and the schedules that I had demanded. When I saw that there were loans there, one of the first subpoenas the Fed issued was to Mr. Altman and to Mr. Clifford, and we subpoenaed every document that they had on those loans. We got the documents back in January in response to our subpoenas.

The documents show there is a side letter between Mr. Altman and BCCI which indicates that the loans—there was no obligation on their part to repay the loans or the principal.

Mr. WYLIE. Did Clifford and Altman ever give you this information?

Mr. MATTINGLY. Yes. In response to the subpoenas they gave us the information.

Mr. WYLIE. Is that when knowledge of the so-called Ryback letters came to your attention?

Mr. MATTINGLY. No. I knew about the Ryback letters before that. At this time the investigation was just really blossoming. I reviewed the files, and at that time I saw that in late 1989 Mr. Ryback had written to Mr. Altman saying, give me everything you have on any loans by BCCI, directly or indirectly, for the purchase of First American stock.

Mr. WYLIE. You said a little earlier that you were the first—the Fed was the first to blow the whistle on this whole operation. Am I interpreting what you said—or Mr. Corrigan said, correctly? Am I interpreting correctly what you said there?

Mr. CORRIGAN. I think it is correct. I think the specific reference you are referring to in my statement is that no official institution that I know of either here or abroad has gotten information and gotten it faster in this whole investigation than the Federal Reserve. I think that is right.

Mr. KENNEDY. Mr. Wylie. I just wanted to ask the witness, if you would yield, a brief question to clarify one of the answers that he gave. Is that possible?

Mr. WYLIE. What is that, Mr. Kennedy?

Mr. KENNEDY. I just wanted to check with the witness on a brief question to clarify one of the answers that he gave.

Mr. WYLIE. I will yield to the gentleman.

Mr. KENNEDY. When you were indicating about the standard that you reached in order to move forward, were you suggesting that if, in fact, BCCI had financed the acquisition by the several Mideastern investors, that that in and of itself creates no violation of Federal rules?

Mr. TAYLOR. No. No. It does. If they finance the acquisition of CCAH shares, that is a violation.

Mr. KENNEDY. And so your difficulty was only in establishing that?

Mr. TAYLOR. That was one of the difficulties, to establish that that was what the money was advanced for.

Mr. KENNEDY. Thank you.

Thank you, Mr. Chairman.

Mr. WYLIE. I have one more question, Mr. Chairman. You have been very generous with the time. I appreciate it.

Should Mr. Altman have disclosed his loans after the revelations of the Ryback letters?

Mr. MATTINGLY. I can't comment on that. That is a matter that the Federal Reserve is looking at in connection with the on-going investigation. I really don't want to prejudice what the Fed is going to do or not going to do on that question.

Mr. WYLIE. Was the Ryback letter plain on its face?

Mr. MATTINGLY. The Ryback letter speaks for itself. It is in the record—

Mr. WYLIE. Thank you, Mr. Chairman.

Mr. ANNUNZIO. Thank you, Mr. Chairman. I appreciate the time.

I want to get the tension off by saying that I want to welcome Bill Taylor to the committee this morning. His family is from my congressional district. He has been nominated to the FDIC. He has my complete support, and I hope the Senate will move rapidly to confirm you before we run out of BIF money.

Mr. TAYLOR. Thank you, Mr. Annunzio.

Mr. ANNUNZIO. Mr. Mattingly, on Wednesday Mr. Altman testified that First American used BCCI to communicate with the various shareholders of First American around the world. He indicated that many of these shareholders were hard to reach. And BCCI knew how to get in touch with them.

My question is this. Why would people conclude—it is my understanding an investor who was only 12 years old at that time suddenly decided to invest in First American Bank. What was so interesting to these fireplug investors that attracted them to First American? Were they giving away toasters or other items?

Mr. MATTINGLY. I think that at that particular time in history they were awash in dollars. Remember, that is when the oil price was sky high, and there were those huge amounts of petrodollars that had to be invested. I am speculating here, but it seems to me like a lot of those dollars were being funneled through BCCI for investment.

Mr. ANNUNZIO. I just can't understand, there are so many other banks, why all of a sudden was First American Bank so popular that everybody wanted to invest in First American? I think you know the answer, and I think we know the answer.

Section 12 of my bill, H.R. 26, the Money Laundering Amendments of 1991, requires the Treasury, in consultation with the Federal Reserve, to adopt a rule requiring financial institutions to keep records of wire transfers. If these records had been kept for the past 5 years, would regulators be better able to judge whether or not First American engaged in money laundering, Mr. Mattingly?

Mr. MATTINGLY. I don't think so, Mr. Annunzio, in this particular case. We have a tremendous amount of information on their money laundering activities that were developed through various Federal and State law enforcement investigations. I also don't think that information on wire transfers would have helped us at all in trying to get to the bottom of this stock ownership question.

Mr. ANNUNZIO. Getting back to money laundering, which I deeply am interested in, they worked out a consent decree for \$14 million, which they paid.

Mr. MATTINGLY. Yes.

Mr. ANNUNZIO. They paid that, for laundering money. That is just a small pat on the wrist when you are considering what laundering drug money is doing to this country, to the big cities of America. It is destroying the young people that are the fabric of this country.

In that legislation I was accused of being too tough, too restrictive, so we put a little amendment in the legislation where we said that before a license can be revoked or a charter can be revoked, there must be a hearing before the Federal Reserve Board, and they would make the determination. I agreed to that amendment because half a loaf is better than none.

The point that I am making is that the House on two separate occasions, passed this legislation by a vote of 406 to zero, and it is still pending in the Senate, where it has never passed.

How do you feel about that legislation? I know the Federal Reserve panel is approving it. But I feel that if we had legislation of this type on the statute books instead of a \$20-million fine, which is a slap on the wrist, that if a hearing was held and it was found that they were guilty, we could dry up the supply of money for these people, that is how you dry it up.

They are using American dollars. They go in and launder this money and get American dollars back and use it to perpetuate their industry. Their trade.

Mr. MATTINGLY. We at the Federal Reserve agree with that, and we support the bill that would give us authority to expel foreign branches and agencies in this country for money laundering and illegal activities.

Mr. ANNUNZIO. I am very happy to hear that. If there is some way you could convey that to the Senate, because we could have avoided a lot of the activity that is going on if the charter had been lifted in First American Bank for indulging in that kind of activity. That is the kind of law we need.

You don't have to pamper these people. These people don't need the sympathy of anybody. They are destroying—I come from the city of Chicago, so I know what I am talking about—they are destroying my city. They are destroying Mr. Corrigan's New York. They have already destroyed three-quarters of Washington. It is the drug dealers. The only way to get them out of business is to cut their legs off, and the way you cut their legs off is to cut off their money.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Leach.

Mr. LEACH. Thank you.

Let me piggyback slightly, again, on the remarks of the distinguished chairman of the subcommittee, and that is to welcome Mr. Taylor. He might have ties to Illinois, but he is Iowa educated and an Iowa wrestler. That is dual bad news for the money launderers of the world.

I would like to ask Mr. Mattingly, sir, you mentioned something that is a new bit of information to the committee, I think it is of profound significance. You said that Mr. Altman and Mr. Clifford, on the record, had no obligation to pay back interest or principal on the loans. That in effect made them gifts from BCCI which would belie their description of BCCI being an advisor to the investors.

Now, in effect, when the loans were paid back, only part of the stock was sold, at a rather extraordinary profit. So they kept part of their original amount of stock that was given by BCCI as their own. They then sold the rest for profit and received cash compensation, all of which originated with BCCI.

Now, would you not say that pretty well destroys any argument that BCCI was an abstract, neutral advisor to so-called investors and would pretty well underscore the presumption that BCCI was the owner of the institution or the controlling owner of the institution?

Mr. MATTINGLY. Congressman Leach, I don't want to be evasive, but, again, that is the very issue that the Federal Reserve is faced with having to decide at this time. I am going to have to provide advice on that very issue to the Board, and I will respectfully request that it would not be appropriate for me to answer that question at this time.

Mr. LEACH. I appreciate that.

Let me then raise one comment you made earlier, and it is the only comment I have some doubt about, at least the judgment which you are reflecting. At the very end of your opening testimony you mentioned that, at the request of the U.S. attorney, the Federal Reserve Board was not putting any more fines on these institutions. Is that request in writing?

Mr. MATTINGLY. Yes, it is.

Mr. LEACH. And can you supply that to the committee?

Mr. MATTINGLY. I can. I would like to explain that.

[The information referred to can be found in the appendix.]

Mr. LEACH. I wish you would. Let me just make it clear. We have lots of requests from U.S. attorneys as a congressional committee, and we should always listen carefully to these requests, but that doesn't mean we want to comply with every request because we have different responsibilities than U.S. attorneys do, as the chairman noted earlier.

And so a request from a U.S. attorney does not in and of itself precipitate a cause by the Federal Reserve Board not to pursue its responsibilities.

So I think it should be on the record, and there may be a matter where you may defer certain types of timing circumstances, but I think I should recognize you have a responsibility and a certain set of laws as well. Perhaps you could explain further.

Mr. MATTINGLY. Congressman Leach, we at the Federal Reserve want to pursue the individuals responsible for this, including the



nine individuals that we have already barred. We would fine—we would bring civil money penalties against those individuals in substantial amounts.

There is a problem, however. These are crimes that we are talking about. And the Justice Department is investigating these people to see if indictments can be brought against these people.

The Justice Department is concerned that if the Fed levies a huge civil money penalty against the individual that would be double jeopardy and then the individual could not then be prosecuted and placed in incarceration. That is the reason the Justice Department has written to the Board and said, would you please temporarily defer civil money penalties while we consider whether or not a criminal case can be brought.

Mr. LEACH. I appreciate the explanation, and it sounds very reasonable, but I hope you bear in mind that dual track may well be appropriate, but in a timing sense there may be a reason for a deferral.

Let me ask further if any of the panel has any suspicion that there is any tie between BCCI and the American thrift industry.

Mr. MATTINGLY. Mr. Leach, during the latter portion of our investigation, I believe it was in June, our investigators were in London. They were consulting with a criminal investigative unit over there, and they uncovered certain information that indicated that BCCI supplied the funding to Gaith Pharaon for stock purchases he made for the Centrust Savings Bank in Miami.

We have in our possession a pledge agreement, what purports to be a pledge agreement, between Mr. Pharaon and BCCI whereby large amounts of the stock that he bought in Centrust were pledged to BCCI. In our—

Mr. LEACH. Is there any evidence of First American's involvement in any way or the law firm of Clifford or either of the two individuals, Mr. Clifford or Mr. Altman, being implicated?

Mr. MATTINGLY. I personally am not aware of any information like that. I would have to consult the file on that to give you a concrete answer.

Mr. LEACH. Fair enough. Could you provide that for the record?

Mr. MATTINGLY. We have provided—yes, we will provide for the record whatever information we can regarding the Centrust matter. We have previously supplied the loan agreement that I am talking about.

[The information referred to can be found in the appendix.]

Mr. LEACH. I appreciate that. One of the great questions is, as we look at the idea of BCCI as a rogue bank, is the question, are there others? Are there suspicions of others? Whether they be from the Middle East or south of our border, do you have ongoing investigations and concerns about that possibility?

Are any of you prepared to make any comments to that extent?

Mr. MATTINGLY. I think both Mr. Corrigan and Mr. Taylor have touched upon that point. Mr. Taylor indicates there is a definite need for the Fed to put on more criminal enforcement staff to do the kinds of investigations we have done in this BCCI matter. Mr. Corrigan has raised the same point, and the Board is going to do that.

We are looking at a couple of situations that we know about that have stemmed from the BCCI matter.

Mr. LEACH. One of the aspects of BCCI that I would like to underscore is from a congressional perspective, it appears that, as a world bank, it has attempted to bring in people of predominance in every country in which it operated, for example, most particularly, the leader of a very important country to the U.S. Treasury, that is, Abu Dhabi, which by implication makes it difficult for certain types of reviews to occur. And there are lots of implications of influence peddling that have been brought.

And I would just hope that it would be well understood that U.S. regulators should articulate to the world at the behest of the U.S. legislators or at least in concert with them, that we are going to be the single toughest country in the world in looking at financial institutions, no matter how politically well connected.

And this political connection goes not just to former secretaries of one kind or another of the United States, but heads of foreign States, former heads of foreign States, former prime ministers, and so forth, which I think has been a serious kind of restraint on the desire or alacrity of regulators to pursue.

And, if anything, I would hope that there would almost be a presumption of problem when very high-ranking people are involved in ownership and lobbying, rather than a presumption of lack of a problem. And that is something, as I look at this whole circumstance, it appears that the better connected the lobbyist, the worse the probable situation is.

Now, does that seem like a fair appraisal? Mr. Corrigan.

Mr. CORRIGAN. Let me say something about that, Mr. Leach. First of all, in your remarks you said you want the United States to be perceived as the toughest regulator in the world. Well, I can tell you, that is exactly how BCCI perceived the Federal Reserve.

The investigators were told in the course of taking statements and depositions from officials in the bank that they regarded the regulatory environment they were seeking to work their way through in the United States as the toughest of the 70 countries within which they operated.

There are any number of examples that we know of in which it is absolutely clear that they found dealing with the Fed tough business. There was one fellow that came out from a meeting with Mr. Taylor and allegedly said he had never before met anybody like Mr. Taylor.

So I think that in looking at this thing in retrospect, BCCI itself obviously viewed the environment that they were trying to deal with in the United States as pretty damn tough to begin with.

Now, we are not saying—even if that is true—that it is good enough. We are all saying that there are additional things in the legislative arena and, hopefully, through the Basle Committee that I am associated with, that can step it up even further.

Mr. LEACH. I appreciate that, Mr. Corrigan. I would note, however, that a whole aspect of some of the evidence that appeared in the testimony earlier this week appeared to be careful memorandums that involved ways to get around Fed regulation and Fed supervision.

Mr. MATTINGLY. That is right.

Mr. LEACH. And so that even though the Fed—it implies Fed toughness, but it also implies the capacity to deal with that toughness. I would hope that it would be understood that we need a renewed sense of concern on this particular issue. And I would like a statement from you saying that that is precisely what you intend to do.

Is that fair?

Mr. MATTINGLY. Mr. Leach, you very much have the attention of the Federal Reserve.

Mr. LEACH. I appreciate that.

Mr. WYLIE, if I could yield briefly to him, and then I have no further time.

Mr. WYLIE. Most of this activity came through what I call a gigantic loophole, the State agency operation.

You ought to look at all of the so-called "State agencies," it seems to me, or the agencies in the various States. But what authority do you have to do that?

Mr. MATTINGLY. We have residual examination authority right now, under the International Banking Act. What we have asked for and what this committee has endorsed is to give the Fed the same kind of examination authority it has over State member banks. We are going to examine those branches and agencies just like we examine State member banks.

Mr. WYLIE. We can't give you that authority too quickly; is that what you are saying?

Mr. MATTINGLY. That is what we are saying.

Mr. TAYLOR. I might also add, responding to Mr. Leach's comments, I think what you have stated is also true for domestic companies, that it is always the problem of the examiner to reach into the powerful pocket of the banker.

The banker is the key person in the community, and that power can work for good. But when it becomes clear that he has gone over the line, that is the art form of the business, to be able to know that that line has been crossed, and reach in there and stop it as quickly as possible.

But you are always dealing with these influential people. So, the more independence the examiner has, the more independence the supervisory process has, the better.

So we subscribe to what you say very much.

Mr. WYLIE. Thank you.

The CHAIRMAN. Mr. Hubbard.

Mr. HUBBARD. Thank you, Mr. Chairman.

To Mr. Bill Taylor and Mr. Virgil Mattingly, as we know, last Wednesday Clifford and Altman testified before our committee, insisting they never knew, nor did they suspect that BCCI had acquired a controlling interest in their bank. Clark Clifford, in fact, said, my judgment is questionable; I guess I should have learned it in some way; I should have in some way sensed it; I did not.

From your investigation in the Fed, what is your opinion? Did Clark Clifford and Bob Altman know BCCI had become the majority shareholder at First American Bankshares?

Mr. MATTINGLY. Mr. Hubbard, again, with respect, that is the very question the Federal Reserve is considering right now; and I am going to have to advise the Board on that, and it would be inap-

appropriate for me to answer that question before the Board has made a decision whether to take action or not to take action.

I tell you, the Federal Reserve System, the Federal Reserve Board, is going to look at that question with the greatest care and attention that we know how. We will make a decision. And that decision will be made public. But we have not done so now.

Mr. HUBBARD. Thank you. I am not trying to be unkind or humorous, but surely that would be a serious consideration for the Fed.

Mr. MATTINGLY. Absolutely.

Mr. HUBBARD. Mr. Taylor, do you have the same response?

Mr. TAYLOR. Yes, sir.

Mr. HUBBARD. In an article in yesterday's *Wall Street Journal*, it was reported that "William Ryback, a top banking regulator at the Federal Reserve, refused to accept a copy of a Price Waterhouse audit of BCCI in 1990 to prevent the New York district attorney's office from getting access to this document. This report proved very clearly that BCCI managed to acquire interest in First American Bankshares in Washington. This incident provides the starkest illustration yet of the rivalry that appeared to grip law enforcement agencies pursuing BCCI."

I realize Mr. Corrigan has addressed this in his opening statement, but the question still remains, to me at least, why did Mr. Ryback refuse to accept a copy of the Price Waterhouse audit report, and—first of all, why did he refuse?

Mr. CORRIGAN. Again, as I tried to suggest a moment before, Mr. Hubbard—let me briefly review the circumstances leading up to this.

In October, early October, we learned from the New York district attorney that they had a tip to the effect that there was a Price Waterhouse report that contained references to loans that were apparently secured by CCAH stock. Again—I will let Mr. Mattingly correct me if I state this wrongly—the mere presence of loans secured by CCAH stock, in and of itself, was not a violation of law; it was not a violation of the Board's 1981 agreement, getting back to Mr. Taylor's comment regarding what was a violation. And what we subsequently found out was that the loans were used to finance the investment made by the investors.

But in any event, we got this tip about Price Waterhouse report. We sought through several channels, including Price Waterhouse directly, to obtain the report. We had suspicions then, and we now know, in spades, after the fact, that BCCI was bound and determined that that report was not going to get to anybody in the United States; not us, nor Mr. Morganthau. They knew it was trouble. In those circumstances, our principal preoccupation was to find out what was there; and we did agree finally with BCCI's lawyers that we would send a representative to London and that that representative would look at the report—not bring it back, just look at the report.

That is precisely what happened. The individual in question looked at the report on the premises of BCCI on December 10, 1990. Within days thereafter, what that individual learned was passed along by one of my senior associates to Mr. Morganthau's office.

On the basis of what was learned then, Mr. Mattingly summoned BCCI's lawyers to his office in New York, and that gave rise to the series of events that was described earlier, including the December 21, 4-days-before-Christmas meeting.

Mr. HUBBARD. I realize you all are smart, trained, experienced attorneys. That was an answer that is interesting, but could you just answer the question?

Why did Mr. Ryback refuse to accept a copy of the Price Waterhouse report? Can you answer that in one simple sentence?

Mr. TAYLOR. I would be happy to try.

First of all, he didn't. There was an argument as to how we could get to see the report and what would happen to the report if we got to see the report. So there was resistance in allowing us to see the report.

I told Mr. Ryback, go see that report; I want to know what is in it, and you go and get it. And he did.

And when he did, a full report of that was given to the district attorney, and indeed, a copy of the report was eventually delivered to the district attorney. Even in talking and looking at the files subsequent to all of this, we find out that BCCI was saying, the Fed—Ryback—continues to pressure BCCI and push them, and if we give him the report, he is going to turn around and give it to Mr. Morgenthau and we know that is what happened.

Mr. HUBBARD. Thank you. I understand your answer a wee bit better than Mr. Corrigan's.

Mr. CORRIGAN. That is often the case.

Mr. HUBBARD. Regarding the transcript of a September 1988 conversation between Awan and BCCI and the Federal agency who participated in a joint Customs Service operation named Sea Chase, in that transcript, Mr. Amjad Awan says, "We"—meaning BCCI—"own a bank in Washington called the First American Bank."

Did the Customs Service or IRS ever provide you gentlemen or the Fed with information, with this information?

Mr. MATTINGLY. Eventually, we got the transcript of the undercover statement by Awan to this—to the Customs agent. We obtained that transcript in 1991.

Now, this is the basis, though—I want to be fair—this is the basis of the statement made to the Fed official in late 1988, where the IRS agent calls up and says, during the undercover operation, a banker told me BCCI owns First American.

At that time—the Fed official says, can we have the evidence? And the IRS agent was not able to give us the information at that time because it wasn't public. I referred to that in my earlier statement.

Mr. HUBBARD. It wasn't public?

Mr. MATTINGLY. It was not public at that time. They did not make the transcript public until the trial.

We have been told by the Justice Department that the transcript of this communication was kept confidential because it was being transcribed and so forth and so on, and they made it a policy not to release the transcripts of any of their undercover tapes until the trial.

Mr. HUBBARD. Well, the cynical taxpayer out there is probably wondering, is this typical of the investigations of the U.S. agencies,

one learns of something that is highly volatile and would tend to indict someone, and yet they don't reveal it to anybody, they just keep it within their own agency? They don't refer it to the Federal Reserve, for example, who is investigating the bank? Can't you see the cynicism that some people might have?

Mr. MATTINGLY. I think Mr. Taylor indicated—and I share his view; I think the Federal Reserve needs to cooperate more, as do other agencies in these areas.

But we did talk to this person, this Awan person. This is the person I said our investigators went to and talked to.

Mr. HUBBARD. In 1991?

Mr. MATTINGLY. Yes, in 1991. But the person doesn't have any firsthand information. What he was basing his comment on was "corporate gossip" at BCCI.

Mr. HUBBARD. Mr. Chairman, I will try to be brief; I know others are waiting.

Let me ask you this. In 1988, a special international regulatory panel, known as the College of Supervisors, was established by several countries for the purpose of monitoring BCCI's worldwide operations. The College of Supervisors reported discovering valuable evidence of BCCI's ownership of First American as early as 1988.

When did the Federal Reserve receive this evidence? Or did you receive any information from the College of Supervisors?

Mr. CORRIGAN. In the fall of 1988, a representative of the Federal Reserve spoke to a senior regulatory official from Luxembourg, Luxembourg being one of the two chartering locations for the BCCI banks.

Mr. HUBBARD. Let me ask you this. Was the Federal Reserve asked to join or did you ever seek to join this College of Supervisors? I say that based on the fact that you told a *Washington Post* reporter yesterday that the Federal Reserve did the best they could with a small, underfunded enforcement staff, regarding the BCCI investigation.

If that be true, why didn't you join up with the College of Supervisors?

Mr. CORRIGAN. The structure of the College of Supervisors initially was made up of the countries that had chartered BCCI-related banks. The United States was not invited to join the College at that time.

There were discussions of an ongoing nature between Federal Reserve officials and the College insofar as the general financial condition of BCCI was concerned. We thought about the question at several points as to whether we should push or ask to join. We decided against that.

Mr. HUBBARD. Why?

Mr. CORRIGAN. The reason we decided against it was because throughout this period, the principal, if indeed not nearly the sole preoccupation of the College was to restructure, recapitalize, or revitalize this bank; and to be very frank, Mr. Hubbard, we did not want to be a party to that effort whatsoever. We wanted the bank out of business.

Mr. HUBBARD. This is the last question, Mr. Chairman. This is my last one.

What is the Federal Reserve doing at this time to enhance cooperation between international banking regulators to ensure that in the future banks like BCCI are not allowed to fall between the cracks of international regulation and supervision?

Mr. CORRIGAN. As I said in my statement, and it is detailed in the joint statement by Mr. Taylor and Mr. Mattingly and me—for better or worse, I am chairman of the international committee that focuses on these questions—we have laid out an agenda for ourselves of six or seven major areas that we intend to look at as promptly as possible. These include such questions as, should we try to adopt within all the major countries uniform or at least broadly common standards for entry. That would mean that rogue institutions couldn't follow the course of least resistance and get around the supervisory process. If the major countries can agree on something like that, all the others would fall into line.

So there is a list of initiatives in our statement which I won't bore you with right now that are aimed at precisely those types of questions. And, indeed, many of the things that we are going to try and pursue at an international level are built very much on the spirit of the legislation that Mr. Mattingly was referring to earlier.

So there will be a major effort here, sir.

Mr. HUBBARD. Thank you for your answer.

The CHAIRMAN. I am going to ask unanimous consent that Mr. Hubbard be given more time for the record.

Mr. Hubbard asked Mr. Corrigan, and he replied that the primary purpose of the collegial getting together of the original three countries was the recapitalization issue.

As a matter of fact, I will ask permission to insert in the record at this point the reply we received from the Bank of England in reference to questions the committee propounded, and I will just read this.

"I am writing in reply of your letter of August 27 addressed to Mr. Quinn, who is currently abroad. I am pleased to supply the following answers to the questions raised in your letter. For convenience, I have used the same numbering as in your letter.

"Please provide a detailed summary of any discussions by the College of Supervisors concerning Bank of Credit and Commerce International, entities in the United States. Include any discussion of BCCI ownership, control or other relationships with Credit and Commerce American Holdings, First American Bankshares, or any subsidiaries of CCAH or First American Bankshares.

"The College of Supervisors in 1988 originally comprised representatives from the Institut Monetaire Luxembourgeois, the Bank of England, Banco d'Espana and the Swiss Federal Banking Commission. The Hong Kong Banking Commission and the Cayman Islands Inspectorate joined in 1989, and the United Arab Emirates central bank and the Banque de France joined in 1990 and 1991 respectively.

"From its inception the College discussed on a number of occasions the loans extended by BCCI to certain BCCI shareholders against collateral in the form of shares of CCAH. These discussions were held in the context of the concern over the financial soundness of BCCI, particularly in relation to the size of certain of BCCI's exposures to some customers, the fact that many of these

loans were not being serviced, and the circumstances in which BCCI might reduce these exposures."

And then the rest of it we will put in the record.

It seems to me here, Mr. Hubbard, the Federal Reserve Board, in exercising its judgment, acted rather disingenuously or precipitately. I think Mr. Taylor was quoted as saying, another reason was they didn't like the aspects of BCCI.

Well, why not? If that is the case, shouldn't an alert regulator be anxious to go there? All it would take would be to send two guys on a plane over to England, and you would have known the very thing that they were doing looks now as if they were on the ball at the time.

[The information referred to can be found in the appendix.]

Mr. HUBBARD. Thank you very much for the additional 1 minute.

Mr. WYLIE. Will the gentleman yield?

I think there is a fine line of distinction here which I think would be difficult for me to discern. I asked the same questions and you responded that the College of Supervisors was an attempt to handle, on an international basis, the international version of the so-called Too Big to Fail Doctrine or the Too Big to Fail Institution Doctrine.

I think that is in the memorandum. It says it was held in the context of concern over financial soundness of BCCI. So there might have been a reason why you weren't participants in it.

Mr. Corrigan, you are shaking your head.

Mr. CORRIGAN. That was precisely what I was suggesting before. Over the period 1989 and 1990, the principal—virtually the sole—preoccupation of the College was to restructure, recapitalize, revitalize this organization. And frankly, we just didn't want to be a party to that process.

Mr. WYLIE. And you say, frankly we didn't want to be a part of that process, and you might want to follow up and say why.

Mr. CORRIGAN. Well, again, as the record is very clear. We had a very long history of suspicion, concern, and by this time, more than that, about this organization. They committed money laundering activities in this country. And we felt that the best thing that could have happened was for them to disappear, certainly from this country.

Mr. HUBBARD. Do you realize now, if you had participated and gone forward, you could have found out at that time that BCCI actually owned First American Bankshares?

Mr. CORRIGAN. That, I think, is highly, highly dubious. Again, the question is: Would we have known about the loans sooner? That is a possibility.

Mr. HUBBARD. A strong possibility.

Mr. CORRIGAN. A strong possibility. But even had we known about the loans sooner, we still would have had to have gotten the documentary evidence as to the purpose of the loan. That evidence only came when our associates went to Abu Dhabi and got it in Abu Dhabi. Now I said in my statement that in retrospect we might have done something a little different here.

Mr. HUBBARD. In retrospect, Mr. Corrigan, to be frank about it, you would have known 3 years earlier that—

Mr. CORRIGAN. We would have known about the loans.



Mr. HUBBARD. About the BCCI owned bank.

Mr. CORRIGAN. First of all, let me correct what I said before. I did use the wrong date, about the presence of loans in the fall of 1989 when we raised the question with the Luxembourg regulator. That is the first time we knew of the existence of loans.

Now, again, the mere existence of loans in and of itself didn't get us anything. What we needed, as Mr. Taylor explained I thought rather thoroughly before, was to know what the loans were all about.

And as it turned out, we were, I think, a little suspicious that that evidence was going to be forthcoming in Europe anyway. It turned out to be right. It was in Abu Dhabi, and I think what happened, Mr. Hubbard, to change the dynamics of the thing, began in the spring of 1990 when there was the change in ownership of BCCI.

And with the change in ownership, I think they probably began to feel that they had to begin to mend their ways, so that's when Mr. Mattingly finally went to them toward the end of 1989, they finally acknowledged this and pointed us in the direction of that evidence.

Now, there too, some time passed. You know, we didn't send our representatives to Abu Dhabi until the middle of March. But there was a little thing called a war going on then. We weren't about to send our people over to Abu Dhabi under the circumstances that prevailed in the Middle East at the time.

So there are points in time when you can say well, this could have gone a little faster here and a little faster there, but I have thought this through as aggressively as I can, and my conclusion, as I stated in my statement, is that, even if the thing was close to optimal, the time saving I think would be measured in months, not years. That is my best judgment.

The CHAIRMAN. Well, Mr. Corrigan, I must point out to you that either you are very naive, or you are very defensive in retrospect, which you don't have to be. I mean it is too late now. But I think the record ought to show that if you had shown interest, if you had been aggressive as you say you were, you would have gotten the Price Waterhouse report in 1988. They would have given it to you. Bank of England officials reaffirmed that. And here is what it says: "Price Waterhouse thinks that the \$900 million loans to shareholders of BCCI should be disclosed in the annual report in the form of a note in the accounts. This refers especially to the loans made for the acquisition of shares of CCAH, National Bank of Georgia, and Independence Bank."

Now I don't see how much more—no use regurgitating that, because I think the record clearly shows. Now I know in retrospect that it looks a little embarrassing, that you weren't eager and truly aggressive and gone over there and sat down with the Brits and the others and found out what was happening that you say you were on top of.

Let me remind you that just recently, supposedly you knew what was going on with Salomon Brothers and their participation in the treasuries, but nothing was said until this scandal. So what I am saying is that the attempt here is not to try to embarrass by retro-

spect, but neither do I think we ought to tolerate obfuscation in an attempt to justify a mission.

Mr. CORRIGAN. Again, there is a total misunderstanding, Mr. Chairman. As I said before, there are clearly things that one would do different. There are clearly lessons that we have had to learn, that I have had to learn from this. So don't misunderstand me, please. I agree with your point.

The CHAIRMAN. Well, OK. I mean you know, I don't want to get to the point where I am trying to embarrass anybody, because that serves no good, but neither do I think that there should be any excessive defensiveness in retrospect, because hindsight of course is always better.

But every one of us can be accused of that.

Mr. Hancock.

Mr. HANCOCK. Thank you, Mr. Chairman.

You know, I studied Economics 101 back in college in 1947, about 44 years ago, and there are four economists on the panel. I believe very strongly in the basic principle of the free flow of capital, and I think it is absolutely necessary to a capitalistic system. But I really don't think Adam Smith thought of those flowing freely. I think that he was thinking more in the idea of gold and silver rather than nonresource notes and promises to pay.

I have got some questions that I probably should have asked this the other day with Mr. Clifford and Mr. Altman here, but in your position maybe you can answer.

Do you know whether there was any compensation of any kind in the form of, say, golden parachutes or anything like that when those two gentlemen resigned from CCAH and First American?

Mr. MATTINGLY. None.

Mr. HANCOCK. There was none?

Mr. MATTINGLY. I am advised that there were none.

Mr. HANCOCK. Just a basic question here. You have indicated that there is some problem with the State laws that allow foreign banks more power than Federal law. Is that an area that should be, maybe the Congress ought to look at; the State's ability to admit foreign banking operations?

Mr. MATTINGLY. Absolutely, yes, sir. We believe that the Congress should act to pass a law requiring Federal review of that, States can continue to authorize it, but it should be subject to Federal review and tough Federal standards.

Mr. HANCOCK. Would you gentlemen agree that the larger scale of operation, especially in the financial institutions, the more difficult it is to monitor and to control and to discover criminal activity that might exist? The larger the operation is, the more difficult it is?

Mr. MATTINGLY. I would say that the larger the organization, particularly with the developments that we have in computer technology and being able to shift millions and millions of dollars at the press of a button, yes, I agree with that. It is more difficult.

Mr. HANCOCK. Well then, I am willing to make a statement here that you may or may not agree with. Today there are over 14,000 banks in the United States. Some suggest we ought to have maybe 4,000 or 5,000 banks. I won't ask for your opinion on that, but I think that if we maintain the small community banks in this coun-

try, we would have a heck of a lot less opportunity for situations like this to occur.

Is there any reporting requirement whatsoever for organizations like the CCAH holding company for the major officers to report their stock holdings?

Mr. MATTINGLY. Yes, sir, there is, and Mr. Altman and Mr. Clifford both reported that they owned the stock. The form doesn't show that they—doesn't ask for information about whether they have to borrow to buy that stock.

Mr. HANCOCK. That is my next question. Isn't there a requirement for officers and directors in banks to furnish also a financial statement?

Mr. MATTINGLY. Yes, sir.

Mr. HANCOCK. Did Altman and Clifford furnish with their statement of stock ownership also a financial statement, and did they disclose the BCCI loan at that time?

Mr. MATTINGLY. My review, I have had other staff review the records that we have. There is no indication in any of the records that are on file with the Federal Reserve that Mr. Altman and Mr. Clifford borrowed money to buy the stock.

Mr. HANCOCK. Did you have financial statements at that time from them?

Mr. MATTINGLY. I don't believe that there was any requirement that they submit financial statements to us at that time.

Mr. HANCOCK. But there is a requirement, you said just a minute ago, there is a requirement that officers and directors must furnish financial statements.

Mr. MATTINGLY. There are certain financial statements that have to be filed, yes, with banks, about borrowings from those banks. The problem is that the borrowing—

Mr. HANCOCK. Well, no, sir. I served on the board of directors of a bank in the State of Missouri at one time and I had to furnish a complete financial statement to the Missouri Banking Commission of my personal assets, ownership, and obligations.

Mr. MATTINGLY. Congressman, I will have to check that. I do know that there isn't any financial statement like that that I am aware of that is filed with the Federal Reserve.

Mr. HANCOCK. But you don't know whether it is required or not?

Mr. MATTINGLY. I do not believe it is required, no. They may be required to file it with the First American Banks. That I will have to check into.

Mr. HANCOCK. Well, wouldn't it only be reasonable that when you get into the taxpayers guaranteeing a heck of a lot of money that the top officers on the board ought to file a financial statement? It would appear to me to be kind of a routine thing.

If we are going to guarantee their losses, you pick a figure, \$500 billion for the S&L's, wouldn't that be reasonable to require that?

Mr. MATTINGLY. I—it certainly is something we ought to think about, I agree with that.

Mr. HANCOCK. It actually surprises me that you don't require it. At any time during these ongoing problems, was anybody aware that there were only two American stockholders in CCAH and that all the rest of those stockholders were in the Middle East?

Mr. MATTINGLY. Yes. That entire list, that entire list of stockholders didn't change much from 1981 to now.

Mr. HANCOCK. And there were only two American stockholders in that whole organization?

Mr. MATTINGLY. Yes, that is right. The two Americans, Altman and Clifford, came in, became stockholders in 1986.

Mr. HANCOCK. And prior to that, it was——

Mr. MATTINGLY. All Middle Eastern, all Middle Eastern.

Mr. TAYLOR. In the beginning there were no Americans.

Mr. MATTINGLY. There were no Americans in the beginning.

Mr. HANCOCK. And that didn't raise a red flag?

Mr. MATTINGLY. It did, and that is why we sent that list to the CIA and the State Department. The entire list of investors was sent over to the CIA and we said we want information, is there any adverse information you have got about these investors. We received back from the CIA the indication we have no adverse information on these people.

We sent the same list to the State Department and the Commerce Department, and I have testified that they, the information that came back to us was: these people—these investors are people of substance and we have no adverse information. That was done in 1981.

We also—as I indicated—we didn't rest there. We wanted to see who these people were, these large shareholders, and four of them were called into the Board; they actually came to the Board's building on Constitution Avenue and they participated in a hearing in which they said they were using their own money, not borrowing from BCCI.

Mr. HANCOCK. But at that time there was no request for a financial statement?

Mr. MATTINGLY. Oh, no, no, no, absolutely, no, sir. We asked for financial statements. We didn't want just their financial statements; we asked for confirmations from banks of millions of dollars that the banks were holding on deposit for those people.

We asked for statements from chartered accountants to verify that those people had the money that they say they had. We got that from a number of the largest shareholders.

Mr. HANCOCK. In other words, you did ask for that, but you didn't ask for the same thing when——

Mr. MATTINGLY. You know, we asked for that when we had to approve the application in 1981. Mr. Altman and Mr. Clifford didn't need any approval from the Fed to buy that stock, nor did they seek any. The information that they had bought the stock showed up in a report filed with us in 19——

Mr. HANCOCK. They are required then to report the fact that they bought that stock?

Mr. MATTINGLY. After the—they aren't required to report. The company was required to list whether any of its directors owned stock of the company, and it is in that report that they listed the stock.

Mr. HANCOCK. But there is no requirement to——

Mr. MATTINGLY. No, sir, because remember, what Mr. Altman and Mr. Clifford bought was about less than 5 percent of the stock of First American.

Mr. SANDERS. Mr. Hancock, would you yield for a second, please?

Mr. HANCOCK. Certainly.

Mr. MATTINGLY. If they had bought over 10 percent they would have had to get the Fed's approval and then we would have asked for financial statements—

Mr. HANCOCK. Pardon me. The combination of the sale actually was what, approximately 7 percent? Is that correct?

Mr. MATTINGLY. No, no, no, no. The total amount of stock that Mr. Altman and Mr. Clifford bought, it is less than 5 percent of the total stock of First American.

Mr. HANCOCK. Their joint ownership was less than 5 percent?

Mr. MATTINGLY. Yes, it was, less than 5 percent.

Mr. HANCOCK. OK. I yield to the gentleman.

Mr. SANDERS. Thank you.

I just want to ask a quick question. You mentioned that you went to the CIA in 1981, and later on when I get my turn I will be asking you about the role of the CIA, and I understand that we are talking about checking out Middle Eastern investors, but hypothetically, how valuable is the CIA in assessing the integrity of investors when—given the real world, the CIA is often involved with some very unscrupulous characters. Now, for example, in 1981 if you had gone to the CIA and said, how about that guy, Manny Noriega, who is on your payroll and his friends, do we have any problem with these people investing in American banks? What would the CIA have told you about Manuel Noriega in 1981?

Mr. MATTINGLY. I don't want to speculate on that.

The CHAIRMAN. The gentleman can reserve that question on his own time. The gentleman from Kentucky's time has expired.

Mr. HANCOCK. From Missouri. Thank you.

The CHAIRMAN. Mr. Hoagland.

Mr. HOAGLAND. Well, thank you, Mr. Chairman.

I want to start out by agreeing with you, Chairman Gonzalez, and the comments that you made about second guessing a situation as complicated as this. I think basically any situation like this can be second guessed, and you know, the fact of the matter is you all caught them, you caught them and you put them out of business.

And I think all of us would have liked you to have caught them earlier, and anyone can argue that it should have been done sooner.

And I am sure we regret that. But the truth of the matter is that you vigorously, when evidence was available, followed that up, and that regardless of any regrets, we shouldn't allow that to affect our attitude as to where to go from here, and I want Mr. Mattingly and perhaps Mr. Taylor, if first of all you might give us your assurances that you will prosecute criminally and civilly just as vigorously as you can any individuals with respect to whom you have probable cause?

Mr. MATTINGLY. That is the position of the Federal Reserve, yes, sir.

Mr. HOAGLAND. And you are going to be very tough about that?

Mr. MATTINGLY. That is correct.

Mr. HOAGLAND. And you won't allow any possible errors or omissions in the investigation of this matter to affect your judgment on that issue?

Mr. MATTINGLY. We are investigating this matter as carefully and as thoroughly as we know how.

Mr. HOAGLAND. Now I would like also to follow up on a comment made by Mr. Leach, and wonder if it might make sense for you all to adopt a policy on big shots.

And you know, based on the premise that people don't hire big shots, and in this case pay them millions of dollars, unless they feel they need them. And maybe you all should put a memo out to your customers and to your hearing officers and others as I read some of the history of this case that if somebody hires a former insider or a former big shot, that in and of itself should be a red flag, and that that in and of itself should be something that warrants closer scrutiny than otherwise.

Mr. MATTINGLY. Well, I think we did give this case very close scrutiny. I think we went through extraordinary procedures in 1981 to find out if what we were being told was true. I think the record is very clear the Fed did not accept the representations of those representatives that we tried to verify to the best of our ability what we were being told.

Mr. HOAGLAND. And I thought that was convincing too, the extent to which you attempted to examine their background, together with a probable cause—or together with a statutory standard that you set out in your statement.

Mr. MATTINGLY. Yes, sir.

Mr. HOAGLAND. But I think it might help if—I mean we have a situation involving a credit union in Omaha where an examiner was deterred because a lot of community big shots were lined up behind the credit union and I think it would simply be helpful; it is your judgment obviously and it is your call, but it would be helpful to at least consider putting the word out to all of the people in the field that when the richest lawyer in town or the most important banker in town starts registering complaints, well that is a time to taken even a closer look, right?

Mr. CORRIGAN. Mr. Taylor made a comment before that I think is very important in this regard. The point that you and Mr. Leach were driving at, in my judgment, points rather squarely to the desirability of making sure that the banking regulator or the securities regulator, or whomever, has a degree, an important degree of independence. I think that is a very basic—

Mr. HOAGLAND. Good.

Mr. CORRIGAN. Point that I think follows from your comment.

Mr. HOAGLAND. And let me make one final point, Mr. Mattingly and Mr. Taylor, and all of you. And that is, are you comfortable that you have sought all of the legislative changes that you need?

And I know we incorporated a lot of the Fed's recommendations in H.R. 6, which this full committee has reported out and is awaiting floor action.

Are there any other legislative changes that we should consider to strengthen your hand in regulating foreign banks?

Mr. MATTINGLY. I believe so. I think we want to carefully take up the chairman's invitation to go back over the legislation and see if we can improve it.

It has come to my attention recently that there are a couple of areas in the criminal investigative area where we—the Congress

has it within its authority to put the Fed on a list of agencies that can grant immunity to try to beef up our investigative abilities.

And we plan to send a letter—I plan to recommend that the Board send a letter to Chairman Gonzalez and ask for his assistance in getting that done.

Mr. HOAGLAND. I am sure that if the chairman decides to support—if proposals like that make sense to him, why the committee will strongly support the chairman in those efforts.

And we do have—it will be 4 to 5 weeks probably at the minimum before that banking bill is considered on the floor, so we will have an opportunity to get it done this year.

Mr. MATTINGLY. Appreciate it.

Mr. HOAGLAND. So let's be sure that we get everything done that we need to.

Mr. MATTINGLY. We will.

Mr. HOAGLAND. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Kennedy.

Mr. KENNEDY. Thank you, Mr. Chairman.

Gentlemen, reports in today's *Wall Street Journal* and in recent issues of the *Financial Times* indicate that BCCI had extensive contacts with another renegade bank, BNL.

In June 1989, for instance, BCCI deposited some \$72 million in BNL's Atlanta office. Bank of America's New York office acted as an intermediary in the relevant transactions.

In addition, in July 1989, some \$22 or \$23 million passed between BCCI and BNL via BNL's Atlanta account with Morgan Guaranty's New York office in an apparent money laundering scheme.

Now, it has been suggested that in about September 1990, the New York Fed commenced an investigation of BNL and BCCI both separately and together.

It has also been suggested that in October 1989, that investigation abruptly ended and on the advice or at least with the tacit consent of the Fed's Washington headquarters.

One of the senior officials at the New York Fed reportedly said that he was, quote, "thoroughly disgusted with the way the investigation was handled."

Mr. Corrigan or anyone else on the panel, did you or anyone in your office receive any pressure from any corner to go slow after discovering links between BCCI and BNL and the possible illicit activities that they engaged in separately as well as together?

Mr. Mattingly, were you ever similarly urged or was it ever suggested that you not pursue the investigations of BCCI and BNL?

I would ask both of you gentlemen what you are doing today to flush out the nature of the activities between BCCI and BNL and what kinds of activities they were engaged with, and what you have found out about their efforts to launder drug money and direct funds to Iraq?

Mr. MATTINGLY. Well, let me say that we were—we did look into—there were a number of Federal funds trans—there were a number of transactions between BNL and BCCI before BNL was seized in August.

The chairman wrote us a letter and asked us for information about that. The Atlanta Reserve Bank went in and looked at those

transactions and prepared a report, which I believe—well, prepared a report. I believe it has been—information from that report was sent back to the chairman.

What happened was it looks like most of those transactions were overnight, Federal funds sales between BCCI and BNL. And, in other words, they would lend them money overnight, repay it the next day.

Now, remember, at this time, BNL was trying to fund a huge off-book—these off-book transactions, and the way they did that was they borrowed money, they bought Federal funds from foreign banks. They would buy it and repay it the next day, and our information is that they were buying money on occasion from BCCI.

I am not familiar with the Bank America transactions, but we will look into that, also.

Mr. KENNEDY. Are you familiar with what I am referring to, with the case I am talking about here, Mr. Corrigan?

Mr. CORRIGAN. There was a point in the middle of what you were reading when I lost you, but let me address two sets of issues here.

One has to do with the original investigation into the BNL thing, which began, as you will recall, in August 1989, yes, August 1989.

And the Federal Reserve did look into that very intensively. All the information that we uncovered at the time in part through the Atlanta Fed, in part through the Washington Fed, and in part through the New York Fed was turned over—

Mr. KENNEDY. Yes, but what I am asking is something very simple, which is, did your agency get any pressure—

Mr. CORRIGAN. No.

Mr. KENNEDY. From your Washington office or anybody else to stifle an investigation of BNL and BCCI?

Mr. CORRIGAN. No. No. There was no pressure of that nature.

There were again some frustrating moments associated with—

Mr. KENNEDY. But you received no pressure from any other agency or any of the rest of you have never received any attempt to stifle an investigation, either through the Washington office of the Fed or—and you are completely unfamiliar with the events that I described, Mr. Corrigan, in my question?

Mr. FORRESTAL. Mr. Kennedy, if I might respond to that in part.

The Atlanta Reserve Bank undertook the first investigation of BNL after these events came to our attention. It was a very intensive investigation. It has resulted, as you know—

Mr. KENNEDY. We cannot hear you, Mr. Forrestal.

Mr. FORRESTAL. Those investigations, as you know, have resulted in indictments in Atlanta. I can tell you categorically that no one in the Atlanta Reserve Bank received any pressure whatsoever.

Mr. KENNEDY. I didn't have information, Mr. Forrestal, about the Atlanta Reserve Bank. My information pertains specifically to the New York Fed and to an attorney there that felt that the—that his investigation had been stifled. And that is the answer that I wanted to hear from Mr. Corrigan.

Mr. CORRIGAN. I am trying to find the exact thing that you are reading from here.

Mr. KENNEDY. No, no, no, I wasn't reading from that. You are reading the article in today's *Wall Street Journal*? Is that what you are reading?



Mr. CORRIGAN. Yes.

Mr. KENNEDY. That is my second question, which I want to get to in a moment.

I am talking about some other information that I was made aware of.

Mr. TAYLOR. Mr. Kennedy, in the meantime could I answer no?

Mr. KENNEDY. Fine. Thank you.

Mr. TAYLOR. And, second, to tell you that there is an investigation continuing, both as it relates to BCCI and BNL, and we have personnel assigned to the Justice Department in that regard.

Mr. KENNEDY. Well, that brings up a second question, which I would like to understand very much in terms of the relationship between the Justice Department and the CIA and the kinds of cooperative agreements that are supposed to take place between the Federal Reserve and those agencies.

Do you, in fact, have some kind of cooperative agreement with those other agencies?

Mr. TAYLOR. Well, I mean—

Mr. MATTINGLY. We are closely cooperating with the—we are working very closely with the Justice Department and the State of New York in this BCCI investigation.

Mr. KENNEDY. Mr. Mattingly, I am sorry, my time is running short here. So I just want to cut through it. I am aware that the Justice Department, through the Tampa U.S. attorney's office, failed miserably to comply with whatever cooperation you say now exists.

It had 16 hours of tapes of a BCCI official named Lohdi spilling his guts about the money laundering activities and the control of First American. Yet, it failed, as I understand it, to turn them over to you after you requested the information that was contained in those tapes.

This certainly is an indictment of the Justice Department's willingness to aggressively pursue the kind of white-collar crime that is taking place at BCCI. In the case of the CIA, it is now known that as early as 1986, Mr. Casey and Mr. Gates and their associates at the agency had on their laps an internal report that documented in detail BCCI's money laundering and illegal control of First American.

Did anyone at the CIA ever pass that information along to the Fed? Did the Fed ever ask the CIA for information pertaining to BCCI? And it is now public knowledge that when Mr. William von Raab of the Customs Service told Mr. Gates about BCCI's wrongdoing, Gates did nothing to pursue the lead.

It has also been reported that the CIA and BCCI were to send money and supplies to the Afghan rebels to pay its informants in Asia. In addition, in today's *Wall Street Journal*, reports of one of Bill Casey's old golfing buddies, Bruce Rappaport, controlled a bank with connections to both BCCI and BNL.

Rappaport and Ghaith Pharaon are also very close in the oil business. Such facts raise serious questions about whether the CIA had a motive, not just to drag its feet, but to affirmatively act to conceal BCCI's activities from law enforcement officials.

Did you ever or did anyone ever, with contacts with the CIA, suggest that it was—did anyone ever feel that it was in the least bit

out of the ordinary that if none of these cooperative agreements were in place to a degree that would suggest that there should have been greater cooperation between the Fed, which is, after all, responsible for implementing these policies and the tremendous amount of information that it would appear other Federal agencies had, do you feel that there was some kind of effort that stifled all those other agencies from coming forward and sharing with you information that they had pertaining to BCCI's criminal activity?

Mr. MATTINGLY. Congressman Kennedy, I can only tell you what the facts are. No one from the CIA contacted us in 1985, 1986—

Mr. KENNEDY. You don't have to just—you can tell me what your feeling is about—I mean, there has been a series of facts that we have just laid out to you. It has been in the newspapers. You can tell me what you feel about what kinds of situations developed and which information was not provided to you that, it seems to me, had a pertinent bearing on what the outcome of your investigation would have been.

Mr. MATTINGLY. Congressman, I have indicated that I think there should be more cooperation among agencies of the government, yes.

Mr. KENNEDY. You know, I mean fellows, you are starting to stonewall us at this point. I don't understand it. What is the point—

Mr. TAYLOR. Mr. Kennedy, I have no knowledge, supposition or opinion that anything was intentionally withheld from us. What I do have is a distinct impression, looking at our own needs, that we need to have better investigative procedures.

Mr. KENNEDY. Are you saying to me that 16 hours of testimony by Lohdi in Tampa, where they have the tapes, Morgenthau comes in and asks them for the tapes. You ask them for the tapes. They don't provide them, that that isn't tantamount to them stifling your investigation?

Mr. CORRIGAN. Didn't help.

Mr. KENNEDY. I bet it would have. You guys can sit there, you know—

Mr. CORRIGAN. Mr. Chairman, to answer Mr. Kennedy's earlier question to me, it took me a while to figure out what you were asking, but I think I understand. It is true that in the early phases of the BNL investigation in 1989, that I had some suspicions, they were just wild suspicions, and the investigation was very, very complicated. Through my associates, I did succeed in making sure that my suspicions were known. That probably could have happened a little quicker.

But there was never a question, Congressman, in my mind about anybody trying to stifle the information; it was just a question of trying to get my thoughts, for whatever they are worth—

Mr. KENNEDY. Can you share with us, Mr. Corrigan—I appreciate your forthrightness. Can you share with us what your suspicions might have been?

Mr. CORRIGAN. Well, my suspicion, to be very honest, was from the very beginning, I thought there was an arms connection.

Mr. KENNEDY. And how would that arms connection have worked?

Mr. CORRIGAN. I didn't know that. But almost from the moment that we learned about the BNL thing in Atlanta, I—maybe I am just too suspicious—

Mr. KENNEDY. Maybe not.

Mr. CORRIGAN. I suspected—I shouldn't say I suspected, that is too strong. I had no evidence. But it just seemed to me that that was something that should be looked at. And I was satisfied—I want to emphasize this—I was satisfied that my suspicions, for whatever they were worth, did get into the official channels.

Mr. KENNEDY. Were you satisfied then that as a result of them entering official channels, that they were acted on and investigated?

Mr. CORRIGAN. I really can't judge that, and I am not copping out. I can't judge that. I knew that as that investigation proceeded, all of the appropriate agencies in the Federal Government were actively involved in the investigation, and I was fully satisfied that I had—again, for what it was worth—passed along my suspicions.

I cannot judge what happened after that, and you know, I was not in any way, shape, or form a direct party to the investigation, except—

The CHAIRMAN. The time of the gentleman has expired.

The Chair will advise the gentleman that the committee has held several hearings, I don't recall if the gentleman attended them, on BNL in which—

Mr. KENNEDY. Yes, I was here at almost every BNL hearing, Mr. Chairman.

The CHAIRMAN. Well, if the gentleman will recall, we did adduce testimony, and in the meanwhile, we, too, have not completed the BNL—committee consideration of BNL—and there is, in answer to your question, in supporting the suspicions expressed, we do have evidentiary documentation that indeed, such was the case, some aspects of that activity, and others.

But that is a question that the committee is still involved in.

Mr. KENNEDY. Yes, Mr. Chairman, in that regard, it would seem to me that Mr. Corrigan's answers would indicate that there is every real possibility that an agency of the Federal Government, in an attempt to hide its own involvement with a criminal activity, stifled the normal investigative process of the Federal Reserve, stifled the normal investigative process of the Department of Justice, and perhaps the Customs Department as well.

It seems to me that that is a very, very important and disturbing possibility that I would hope our committee would take an aggressive look at.

The CHAIRMAN. Let me say, the Chair does not agree with that interpretation as to Mr. Corrigan's thrust of his words.

Mr. KENNEDY. He said it was a possibility, Mr. Chairman.

The CHAIRMAN. Well, but the intent is making an affirmative, positive statement, not a possibility, a contingency statement. So there is no use—it is speculative.

Mr. KENNEDY. He said it was a possibility.

The CHAIRMAN. I will say that I do not agree with the gentleman's interpretation or conclusion reached.

Mr. KENNEDY. I didn't reach a conclusion, Mr. Chairman, I just said it was a possibility.

The CHAIRMAN. OK.

Mr. CORRIGAN. I want to be sure again, Mr. Chairman, that I am not suggesting that we were stifled. I want to—

The CHAIRMAN. I interpret it that way, Mr. Corrigan. I think any reasonable person would—before we recognize Mr. Neal, I will ask unanimous consent that Mr. Moran be permitted at this point to offer some questions in writing to the witnesses, and also ask unanimous consent for any other member of the committee who wishes to do so, both those present and those absent.

[The information referred to can be found in the appendix.]

The CHAIRMAN. And with that, I recognize Mr. Neal.

Mr. NEAL OF NORTH CAROLINA. Thanks, Mr. Chairman.

The Federal Reserve has an outstanding record in the area of regulation, and I know that, and I have an enormous regard for that record. But I have to tell you that I am really troubled by what I see as some loose ends here.

Let me tell you what I am talking about and maybe you can help clear this up. I am looking at a document here, this is a copy of a letter from the Federal Reserve to a Mr. Frank van Court, Esquire, and apparently he is representing, let's see—who is he representing? Mr. Pharaon, who apparently is one of the nominees of this BCCI.

And in this letter, he says, "We would very much appreciate hearing from you concerning the nature of Mr. Pharaon's investment in NBG," National Bank of Georgia, I take it, "and why control of these shares should not be attributed to BCCI."

There was a suspicion within the Fed back in 1978 that BCCI was really buying these shares. Then, in 1987, there is criminal activity within BCCI. —It has been in your testimony this morning, several of you mentioned this, that in 1988 BCCI and five executives were indicted on charges of laundering drug money through several U.S. banks, including First American.

BCCI forfeits \$14 million. In 1989, February 1989, this is in an article in the *Los Angeles Times*, "Special Agent David Burris and his supervisor, Maurice Dettmer, come to Washington to meet with Mr. Ryback." The IRS agents provided Mr. Ryback with a briefing of the evidence obtained concerning the BCCI-First American link.

According to the IRS agents, they offered to provide witnesses who could describe how BCCI owned First American. This is in February 1989. In April 1989, a Federal grand jury in Tampa returns an indictment against BCCI, alleging that laundering drug money was part of BCCI's corporate strategy.

And there are several other examples. The point is that there—let me make just one other point. I will run out of time if I don't yield to you for an answer. I want to ask you to comment again, if I may, on this question of why you all chose not to join this so-called College of Supervisors. I raise this again—you, Mr. Corrigan, I understand your comments on this.

But I am also looking here at a letter from the Bank of England, in which they say that from its inception, the College discussed on a number of occasions the loans extended to BCCI, to certain BCCI shareholders against collateral in the form of shares in CCAH.

By the way, I forgot to mention that earlier in the 1978 document, the attorney of record was Mr. Altman. So, apparently Mr.

Altman was engaged in this for a long time. He was representing Mr. Lance, apparently.

Well, let me just complete the thought here on this College of Supervisors. These discussions were held in the context of concern over the financial soundness of BCCI. Remember now, this is—this goes back to 1988, I believe.

Let's see, financial soundness of BCCI, particularly in relation to the size of certain of BCCI's exposures to some customers, the fact that many of these loans were not being serviced in the circumstances in which BCCI might reduce these exposures.

The point I am trying to raise here is it just seems to me that there are some examples of red flags going up concerning criminal activity, concerning links between BCCI and these other institutions. That it is just not up to your usual high standards, it seems to me, to not get involved, and that is what I wish you would help me understand a little bit here.

Mr. CORRIGAN. Well, again, I think we have all made it clear, Mr. Neal, that we aren't ourselves entirely happy with the way this thing played out. We think we could have done better and we like to think that we have learned enough that if we have to go through something like this again, God forbid, we will do better.

Again, if I can just pick up a moment on this college point again. In the period right after the formation of the college, as I said, and throughout much of its existence, they were really focused on restructuring the bank.

Their discussions with the loans in question were strictly conventional banking supervisory concerns about collectibility and value. You know, at no time did they mention the existence of these loans to us until, as I said, the fall of 1989, when a Federal Reserve official raised the question with the then-chair of the college. The chair of the college said yes, the loan is there and he asked if he could provide further information.

Some months later, we went to the Cayman Islands and asked the same question. We were told, "we have no information." We are into 1990 now and finally, we do get that information.

I am perfectly prepared to concede that, if I had to do it over or if we had to do it over, we would probably do something differently there, but I also think that the fact does remain that, you know, even beginning in that period when we talked to Luxembourg supervisors at the end of 1989, I have to concede that the information coming back to us was kind of slow in arriving.

So, it is not the most elegant part of the story.

Mr. TAYLOR. Mr. Neal, I might add to what Mr. Corrigan has said that, first of all, I want to make it very clear, we were not invited to join the college. Let me also make it clear that evidence in the files, from what I understand has been turned over to the committee, indicates that BCCI strongly lobbied to keep us out of the college.

Three: In retrospect, yes, maybe we should have been. But the concern really is one of, do you provide credibility to BCCI by being part of this college? I look at the college and I see its history, and had we joined the college, had we done exactly the right thing in the college, maybe.

But I fear that our approach, and I think Mr. Corrigan has said this very well, our approach differed at the time. We were not trying to reconstruct; we were trying to see a company that we had little trust in exit from the country.

Now, in retrospect, what this points out, I think, going forward, in which I think we have committed pretty strong resources to in the form of Mr. Corrigan as the head of the Basle Supervisors Group, I think that any body like this that is formed in the future, we would probably encourage the other supervisors to bring that to the Basle Committee.

So that indeed, everyone in the supervisory mechanisms, the major countries, would be aware of this, not only of its existence, but its activities.

Mr. MATTINGLY. I would like to make one final comment to what you said, Congressman Neal, and that is that I think if you look at the record fairly, it will show that the Federal Reserve never turned away from BCCI.

Every time an allegation was raised about BCCI and First American, we did the very best we could to check into it. In 1981, we went through those hearings and procedures; when we got this information in 1988 that you referred to, we had the Reserve Bank go in and look, we talked to the criminal prosecutors in Tampa.

There were things we should have done, there are things with hindsight that I wish we had done and done differently and more quickly, but I can assure you, we never turned away from this issue. We looked at it and we continue to look at it, and in the end, we were able to uncover the truth.

Mr. NEAL OF NORTH CAROLINA. Let me just ask this question, then. Are you confident now or do you feel pretty comfortable as we go forward, with all these countries encouraging offshore banking operations to avoid laws and regulations, I can't see why in the world the Cayman Islands would be a banking center unless it is to avoid law and regulation. Bahrain, I understand, is a banking center now, and others.

I mean, do you feel comfortable now that we will have a way of keeping up with these high fliers?

Mr. CORRIGAN. I am with you. This is another reason, Mr. Neal, why this international dimension is so important. You know, if there is a tax aspect or something that makes the Cayman Islands or Bahrain or wherever attractive as an offshore banking center, and just hypothetically say we in the United States say to our banks, you can't go there, or if you are there, you've got to get out; if we do that, and other countries don't join us, then we are putting our banks, in some sense, at a competitive disadvantage.

So, we have to get these lowest common denominator things out of there, and that is one of the reasons why the work of this BIS Committee can be so important.

If we are going to do something like that, we have to do it as a group of countries.

Mr. NEAL OF NORTH CAROLINA. You are right. Now, is that going to work? It has worked so far with capital, as I understand it.

Mr. CORRIGAN. I will give it my best shot.

Mr. NEAL OF NORTH CAROLINA. Well, I mean, what do you think? Do you think it is going to work?

Mr. CORRIGAN. I feel confident, I really do feel confident that we will make some very, very important progress here. The one thing that hasn't been said that should be said is that my fellow central bankers and central bank governors are in many cases more outraged about this BCCI thing, if that seems possible, than we are, because in their jurisdictions, unlike our jurisdiction, individual depositors lost a lot of money.

Mr. NEAL OF NORTH CAROLINA. Yes, I know.

Mr. CORRIGAN. So, I can tell you that both at the working level and at the level of the governors, this is a case that has generated a tremendous amount of interest in sensible reform.

Mr. NEAL OF NORTH CAROLINA. Thank you.

The CHAIRMAN. Thank you.

Mr. VENTO.

Mr. VENTO. Mr. Chairman, thank you. I regret that I have been in and out today, and appreciate the opportunity to question the witnesses.

One of the reoccurring concerns that I have are not unlike my colleague from North Carolina, Mr. Neal, because I mean, here in 1981, you have a decision made that you are going to in fact try and bar BCCI takeover of Financial General and other financial institutions.

Incidentally, this is, as Mr. Clifford pointed out so aptly, one of those grandfathered institutions that has this ability to go State to State. And we don't have very many of those; we have enough, but they are, as you know, gentlemen, a special responsibility to the Federal Reserve Board, because of your regulation of holding companies.

And so, in 1981, you make a decision that there should be no financing of the transaction provided by BCCI in terms of this particular agreement. You make that particular requirement, but apparently have no ability, from what I can see, then or apparently no ability exercised since then to do anything about it.

I mean, why make that particular requirement when you have no ability to deal with and implement and enforce that? What were you relying on, voluntary enforcement, Mr. Mattingly?

Mr. MATTINGLY. No, that is—

Mr. VENTO. Speak into the microphone so I can hear you.

Mr. MATTINGLY. Congressman, that is a commitment that was offered to the Board and it is a violation of Federal law to dishonor that.

Mr. VENTO. How do you enforce it? How do you police it?

Mr. MATTINGLY. Well, in this case, we have shown you how we have enforced it and policed it. We have gone and obtained the evidence that shows that despite an explicit representation, I have got loan documents that show the bank made the loans. I have got it.

Mr. VENTO. Yes, we have it. We have it in 1990. That is when we have it. We have it 9 years after the incidents have occurred. We have it. Is there any ongoing requirement in terms of any type of change of ownership, of stock requirements that are made of the principals?

Mr. MATTINGLY. Absolutely, sir. We—that is one of the areas of the legislation.

Mr. VENTO. How many notes did you receive from the ownership and change of stock ownership with regards to First American Bank Shares?

Mr. MATTINGLY. Sir, we received none, and we have asked—this law—

Mr. VENTO. You have no change of ownership in that 9-year period; is that right? Well, I have got one little taste of the investigation you are doing, and that was the letter to Mr. Altman.

In other words, you said you heard rumors, so you sent Mr. Altman a letter; is that correct, and asked him to in fact relate the principal ownership, whether or not BCCI had any ownership or loans out that, for instance, had recourse to the stock of First American Bankshares; is that correct?

Mr. MATTINGLY. That is correct.

Mr. VENTO. And so Mr. Altman asked BCCI if they had any, and they said, no, and sent you back a letter that said no. And that was the sort of investigation and investigative capacity of the powerful, mighty Federal Reserve Board? That is the answer you got back and you call that regulatory enforcement?

Mr. MATTINGLY. I think the record will show we were doing a little more. We went to the district attorney, we went to the foreign bank regulators and said, here is this letter that Altman sent us, is this true? We went to the home countries of these banks.

Mr. VENTO. In other words, what you are telling me is you have no ability to pierce the veil here?

You have no ability to pierce the veil to get that information? If someone wants to stonewall you, you have no ability to deal with it?

Mr. MATTINGLY. That is correct. We have asked for changes in the law which are in H.R. 6, which would require a foreign bank lending money to report that. We are trying to make progress in this area. Nobody wants to know any—

Mr. VENTO. What is your exposure in this particular area? How many of these types of requirements do we have that we are now currently enforcing where we are preventing foreign banks from loaning money to other principals that are truly in ownership of U.S. bank holding companies?

Mr. MATTINGLY. I think this is one of the—this is the only one that comes to mind, is this particular situation.

Mr. VENTO. That is what I am trying to say; do you have 100 of these that you are regulating? This is an unusual circumstance; is that correct?

Mr. MATTINGLY. That is correct. We do not have a lot of these.

Mr. VENTO. To me that sends out all kinds of bells. You have one like this, you have no others, and yet these types of documents coming across your desk don't begin to raise more questions that they have raised?

Mr. MATTINGLY. They did raise questions and that is why we have taken the various actions described in our testimony.

Mr. VENTO. Reading sometimes the articles that come to us, they are sometimes very helpful in trying to draw together all of the details, but, for instance, one of the events that I find very unusual is that, after all of these questions and concerns are raised about BCCI and the other transactions, First American Bankshares ap-



plies and seeks Federal Reserve approval to buy a small bank in Pensacola, FL.

Fed conducted a special inquiry and found no ownership link between BCCI and First American and therefore then approved that; is that correct?

Mr. MATTINGLY. That is correct.

Mr. VENTO. This occurred, sir, in 1989?

Mr. MATTINGLY. Yes, sir.

Mr. VENTO. Why don't you tell me about this extensive investigation you conducted at that particular time. The Altman letter was just one of them. What else did you do at that time?

Mr. MATTINGLY. At that time, the Federal Reserve Bank of Richmond went into the bank, questioned senior management about whether or not the commitments were being honored. We requested that each of the First American banks, the CEO of each of the banks be surveyed to determine whether or not there were any kind of financial dealings with BCCI.

Mr. VENTO. And the report was——

Mr. MATTINGLY. There were no irregularities. There was a relationship between the bank in New York and BCCI, but it looked like an ordinary course of business relationship. At the same time, our staff called the IRS who was investigating the information and asked them whether they had any information about this BCCI/First American link.

Mr. VENTO. I know——

Mr. MATTINGLY. I could go on. Four months later we went down to Tampa and talked to the U.S. attorney. Three months later, we asked the Luxembourg regulator, 3 months after that we go back to Tampa. There is a continuous course of conduct here of the Fed asking, trying to find out information about this relationship. We are not——

Mr. VENTO. What about the Tampa relationship? Testifying before the Senate panel last May, Mr. Mattingly, you said the only effort by Tampa investigators to pass information by an agent, Mr. David Morris, to William Ryback, who is sitting behind you, I understand, the Federal bank supervisor——

But in this article I am reading, it says that the law enforcement sources said that February 1 Mr. Morris and his supervisor, Maurice Dettmer, flew to Washington to meet with Mr. Ryback.

Although the preliminary goal was to obtain information for an upcoming criminal trial, the sources said they provided Ryback with a full rundown of evidence that had been obtained about the BCCI/First American Bank link.

This was in early 1989. What about this particular situation? What happened on the basis of that?

Mr. MATTINGLY. That was on February 2. We do not believe that that is accurate. I have had discussions with the IRS agent involved in that, and I have had discussions with the Board staff official.

As far as we are able to determine, there was no detailed explanation given to the Federal Reserve during any of this period.

Mr. VENTO. Well, what do you expect?

Mr. MATTINGLY. The testimony that we have submitted has our understanding of the contacts during this period of time. There was

a meeting between Mr. Ryback and the IRS—according to the IRS agent, there was a meeting between Mr. Ryback and he on February 2.

They were discussing the history of BCCI and CCAH, what kind of information the Fed had, the common ownership between the two institutions, and so forth and so on.

Mr. VENTO. Were you relying on the IRS to provide you with documentation? That isn't really their primary responsibility, is it? Whose responsibility is it to, in fact, develop this type of information when a problem exists?

Mr. MATTINGLY. It is the Federal Reserve's responsibility and obligation to do that.

Mr. VENTO. I think what this points out is the correctness of limiting off-shore banks because of putting us in a financial disadvantage.

What about the disadvantage of being open to this type of misuse and abuse of the American financial system and of the Federal Reserve Board in their responsibilities here? It seems to me that that should at least be of some consideration in the process of this investigation and of this effort, Mr. Chairman.

But it seems to me that the underlying concern about competitiveness in this area, I mean, competitive for what? You know, to what extent? Do we have—what is the extent of foreign ownership today of U.S. banking interests? Can you give me any type of idea, Mr. Taylor or Mr. Mattingly?

Mr. TAYLOR. Mr. Chairman, I think it depends how you measure it, but the estimate that I think is most reflective is if you take all the branches, and agencies and you add to that all of the subsidiary U.S. chartered banks that are owned by foreigners in the majority—we don't know about minority holdings—you probably approach something around 20 percent of the U.S. banking system.

Mr. VENTO. This is obviously growing and has grown dramatically during the decade of the 1980's; is that correct?

Mr. TAYLOR. That is correct.

Mr. VENTO. And what growth has been dedicated to supervision? You said that it was adequate, it was efficient, you would like to see it better, you are going to use the Chairman's statement to help you foster that.

What type of budget that deals with that tremendous investment that is being made, which obviously is in the trillions of dollars?

Mr. TAYLOR. With respect to the subsidiary banks that are owned by foreigners, those are already supervised, of course, by one of the three agencies.

Mr. VENTO. What is the budget that we have to deal with there?

Mr. TAYLOR. That would be the collective budgets of the FDIC and the Fed and the Comptroller for those particular banks.

Mr. VENTO. In other words, your budget; I am talking about your budget for that purpose in 1991, to the task that you have before you.

Mr. TAYLOR. What is my budget for supervising foreign banks?

Mr. VENTO. Yes.

Mr. TAYLOR. I think probably—I would have to collect the budgets of all of the Reserve banks.

Mr. VENTO. Can you give us some indication or some figure with regards to correcting it in the future, some estimate, some ball park estimate?

Mr. TAYLOR. It is going to be costly, because right now, we are proposing that we examine branches of agencies of foreign banks as if they were—

Mr. VENTO. I am asking what you are spending or what you have available in terms of resources in 1991.

Mr. MATTINGLY. Congressman, I looked at some information, and it is foggy in my mind, but I believe it is about \$250 million that is devoted to supervision by the Federal Reserve, throughout the Federal Reserve System. That is all banks, domestic and foreign.

Mr. VENTO. That doesn't differentiate. Of course, I understand your budgets may not differentiate.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Mr. Kanjorski.

Mr. KANJORSKI. Thank you very much, Mr. Chairman.

I would like to congratulate you for holding these hearings today. Certainly this is an important issue. I sit here and I get curiouiser and curiouiser, as one of our comic characters said in the past. I have not yet been able to discern in my mind the motives, and it seems to be that in too many instances, greed and profit alone are not the sufficient motive in these cases.

So one question I would like the panel to address, are you satisfied that we are anywhere near—the one question I want to raise some information and to see whether bells go off, I am reading an article from the *Wall Street Journal* and it indicates that Mr. Greenspan in January 1991 passed on a vote to issue a cease and desist order, and he later on says that he did so to avoid a small conflict of interest because he socialized with some of the parties.

I dare say, gentlemen, that the parties involved in this case, I doubt whether there is anybody on this panel that at one time or another hasn't been to a cocktail party or a function that one of them hasn't been present, certainly at the Democratic Convention—

The CHAIRMAN. If the gentleman will yield, the chairman hasn't.

Mr. KANJORSKI. Very good.

The fact that Mr. Greenspan recused himself, it strikes me there should have been other questions asked. I am curious whether they were asked.

Mr. MATTINGLY. Let me answer that, if I can.

The Chairman has met Mr. Altman on several occasions. This vote came up, Mr. Taylor and I went to the Board and asked that the cease and desist order be issued.

The Chairman was unsure in his own mind about whether he should participate or not participate because of this acquaintance that he had with Mr. Altman.

Mr. KANJORSKI. Performing his function. You are saying, cease and desist, what work could he do in an honorable way? Have you investigated the fact that at some time in Mr. Greenspan's prior life he may have been a consultant to some of these parties? Has that been examined? We have testimony before this committee in the S&L scandal that on 18 occasions Mr. Greenspan was a hired

consultant for 18 savings and loans and gave them a good, clear bill of health, and they subsequently failed.

Now, has your investigative staff gone on to inquire as to whether or not—I am not suggesting there is, but ask the question, is there any consulting fees or profits that have been received by Mr. Greenspan or anyone else in an official capacity of the U.S. Government or your agency? Have you made that inquiry?

Mr. MATTINGLY. I have discussed with the Chairman the reasons why he wanted time to consider whether he should recuse himself, and that was not mentioned. What I relayed to you is what he told me.

Now, the Chairman subsequently decided that this acquaintance he had with Altman was not sufficient to recuse him from this matter. He has voted on a number of occasions on actions we have brought before the Board to fine BCCI, to make other cease and desist orders, and so forth.

Mr. KANJORSKI. Do you think we should inquire as to anyone having had a prior consulting relationship with these parties if they seem to be pretty well networked with this Government, the past Government, and everyone else. Do you think that is a reasonable inquiry?

Mr. MATTINGLY. Sounds reasonable to me.

Mr. KANJORSKI. Can we make sure we find that out and have a written statement? I am curious that—with all this information floating around about the connection between BCCI and First American, and then they make an application to buy a bank, and you know all the transactions, you know the stock transactions of Clifford and Altman with First American, and I don't know why their statements says officers and directors—I am going to check the law now—but I sat on a board of directors, and I know I had to disclose the source of the money used to purchase the stock in that bank.

Mr. MATTINGLY. You would have to do that, yes.

Mr. KANJORSKI. Did Mr. Altman and Mr. Clifford disclose when they were officers and made the purchase of 5 percent of the stock of First American Bank, did they disclose where they got that money?

Mr. MATTINGLY. No, they didn't, but my understanding is that the amount of stock was not sufficient to——

Mr. KANJORSKI. I am not talking about controlling interest. I didn't control the interest in my bank but I had to disclose to that institution and the Federal Government, that when I made a purchase of stock in the institution I controlled as a director, I had to disclose the source of that money to be certain there wasn't inter-locutory relationships. I suppose that was the obvious implication.

Now, you didn't know whether they did it then, you were going to check that?

Mr. MATTINGLY. Yes.

Mr. KANJORSKI. But in 1989, First American made the application to buy the bank in Florida. Didn't you all think this was a good time to sit down with Mr. Clifford and Mr. Altman and go through with them, to put them on the record under oath as to the disclosures, not these stupid letters we are getting back and forth.

One thing Mr. Altman impressed me with yesterday, that he knows the law, and he knows how to comply with the law and to make the appearance of compliance with the law, and that he did very well.

Now, my question is, didn't you all suspect that at some point, that you could have gotten these people on record under oath to determine whether or not some sort of an organized effort was here?

Mr. MATTINGLY. Sir, we did send the examiner in, and the examiner—this is an examiner, and it is a Federal crime to make a false statement to an examiner—the examiner talked to Mr. Altman about the situation.

Mr. KANJORSKI. But you had to know, Mr. Altman is a very clever lawyer. He was asked the question whether or not any of the loans made by these shareholders from BCCI and then as a lawyer, and that as a lawyer, interestingly, he is not responsible, but he conveniently avoided telling you that he and Mr. Clifford had made such a loan, except the stock was not disposed, but since the question wasn't specifically delineated to that question of past or present, he scaped the answer.

I am not sure whether he scaped the answer in my own mind. But in dealing with a person over these years, doesn't it strike you that these are pretty clever people, that we better be a little more precise?

Mr. MATTINGLY. I think that is one of the lessons we learned in all of this is that we at the Fed are going to have to make more use of our subpoena powers and our ability to take depositions and put people under oath. That is definitely one of the things that we have learned from this episode. That is one of the reasons that drives us to make the recommendation to put on investigators who can do that kind of work.

Mr. KANJORSKI. If I may, Mr. Chairman.

Do you agree with me—I saw Mr. Corrigan shaking his head here—we are not at the bottom? This wasn't purely profit or greed motive here. Have you in your own mind come up with what caused people of such outstanding reputation to get involved, the implications of the system, have you come up with something? Is there a scheme behind this?

Mr. MATTINGLY. Congressman, there are a lot of questions we have about this whole BCCI thing. What were the motives? Where did the money go? And that question that you raise is also one of the major—one of the questions that we have. There are a lot of unanswered questions.

This is the biggest fraud that we have ever encountered. And the reasons for the fraud and what happened and why they wanted to buy American banks, what was in it for them, those questions we have not yet been able to get to the bottom of. We are still looking at that.

Mr. KANJORSKI. Have you discovered in BCCI or First American any loans to public officials, past or present, of the U.S. Government or others, of a significantly uncollateralized situation?

Mr. MATTINGLY. Suffice it to say that these banks are being gone over with a fine-tooth comb. If there is information of any kind of

improper activity, that information is being transmitted to the appropriate law enforcement authorities.

Mr. KANJORSKI. Now if you could give me a yes or no.

Mr. MATTINGLY. What is the question?

Mr. KANJORSKI. Have you discovered the names of any past officials of the U.S. Government that have received loans, either favorable or just loans from BCCI or First American or any of their affiliates?

Mr. MATTINGLY. I guess from BCCI, no. From First American, there have been some loans.

Mr. KANJORSKI. How significant are these amounts?

Mr. MATTINGLY. I don't think I can begin to comment on that matter.

Mr. KANJORSKI. Why not?

Mr. MATTINGLY. Because that is a matter that we are currently investigating and that other agencies of the U.S. Government are also investigating.

Mr. KANJORSKI. How would that be compromised by telling us the amounts of these loans?

Mr. MATTINGLY. I don't personally know what the amounts are. It is a very limited situation here. It is a very limited situation from what we know now. It is a very limited situation.

Mr. KANJORSKI. Are they present officials of the U.S. Government?

Mr. MATTINGLY. No.

Mr. KANJORSKI. Are they past officials of the U.S. Government?

Mr. MATTINGLY. I am going to have to respectfully decline.

Mr. KANJORSKI. Are we going to receive that information?

Mr. MATTINGLY. We have an investigation under way into all matters associated with this BCCI situation.

Mr. KANJORSKI. You know—

Mr. MATTINGLY. I have testified before, when we can get information we refer it to the law enforcement authorities or we take action.

Mr. KANJORSKI. Sometimes the law enforcement agencies don't take action in this country, or haven't you heard of that problem we have had over the years? I mean, how are we going to protect the American public or the Congress of the United States from acting respecting certain individuals if, in fact, they were recipients of highly-uncollateralized loans by this bank fraud?

Mr. MATTINGLY. I think you have got the attention of the U.S. law enforcement authorities in this matter.

Mr. KANJORSKI. We want the American public—they are the taxpayers. They are the ones who pay for you and me. They have a right to know who these people are. Is that going to be disclosed publicly?

Mr. CORRIGAN. If I may, I think we have to be a little bit careful here. There is a matter of, you know, individual rights, too. If we—

Mr. KANJORSKI. There is individual rights, but, Mr. Corrigan, there is not anybody in America, on this committee, that would have been highly impressed to find out that millions of dollars were loaned to two lawyers in town that represent BCCI and by a bank that would have been much more highly suspicious than you

folks. I am not at all content that you are sufficiently suspicious. I am. If you tell me a public official has an uncollateralized large loan, I know what that might represent. I get suspicious. It may not be a loan.

Mr. MATTINGLY. Public officials, past, former public officials are not barred from borrowing—

Mr. KANJORSKI. No, but we have to disclose it. That is what is nice about our system. When I find out somebody didn't disclose a loan, there is generally a reason.

Mr. MATTINGLY. There is definitely cause for concern—

Mr. KANJORSKI. You see, if Mr. Clifford and Mr. Altman had to do what every Member of this Congress has to do and every high official in the U.S. Government, there wouldn't have been any question that the purchase of the First American stock was made by foreign loans uncollateralized. We wouldn't have a problem today. You wouldn't be spending millions of dollars in investigation.

But since you fellows don't ask those questions, now that we know that there is someone out there, we want to know, and the taxpayers want to know.

Mr. MATTINGLY. I can understand that. And we are doing what we can to get to the bottom of this and to make the appropriate response by the Federal Government.

Mr. KANJORSKI. God, I hope it is not the CIA.

The CHAIRMAN. Well, I hadn't known before that the gentleman from Pennsylvania had been a banker. Now I can understand why he was so strong on the CRA situation. But I think—

Mr. KANJORSKI. Mr. Chairman, may I respond to that?

The CHAIRMAN. Certainly.

Mr. KANJORSKI. Mr. Chairman, I sat as a member of the board of a bank with \$40 million, and I did see extensive times during that tenure that excessive costs had to be expended by small banks of that size to comply with the paperwork that the Fed or the Federal regulators, when, in fact, most banks of that size either operated or performed loans locally within their community or they don't function.

So I saw it as a way of being very efficient in allowing small banks to continue in this country rather than having it shrivel down to BCCI.

The CHAIRMAN. Mr. Moran.

Mr. MORAN. Thank you, Mr. Chairman.

Let me address this to any members of the panel who would be able to respond. I represent a substantial number of constituents who have deposits and loans from First American Bank of Virginia. I have told them that to my knowledge I have seen no evidence that their deposits have been used for any illegal activity whatsoever.

Now, this discussion with Mr. Kanjorski may raise some question about that. I just trust it doesn't. The problem with not—with having to be evasive about answers is that it raises suspicions on a whole broad range.

But can anyone on this panel confirm that to your knowledge there has been no illegal activity conducted with the deposits of First American Bank in Virginia?

Mr. BLACK. Mr. Moran, we investigated that twice. We have found no evidence whatsoever. These were special investigations. We inspected the holding company on eight different occasions, and we reviewed the examination reports of the primary supervisors of the subsidiary banks and have no such evidence.

In fact, the one who really lost on this thing, in my judgment, was BCCI. In the case of First American, you wonder why they bought it. They put in over \$500 million worth of capital, and they took out no dividends. BCCI is now bankrupt. It is being dissolved all over the world. They were the ones who really came out on the short end of the stick, not the customers of First American.

Mr. MORAN. It seems, though, that the only explanation at this point is that BCCI really wanted a credible reputation in Washington, perhaps as a front. But for whatever reason, they were not using First American as a conduit for illegal activity. It served their purpose simply to own or have control of a bank that had a positive reputation and seemed to give them access to the people that they wanted.

That seems to be the purpose of the bank, rather than the kind of money laundering and so on that took place through other banks in their operation.

Mr. TAYLOR. We have not found any sort of material indications of criminal business use. At the same time, I have to point out that, you know, the local area has its real estate issues and so forth. And First American, like many of the organizations, has reported losses.

Mr. MORAN. I am very much aware of that, but those are not because of illegal activity. It may have been judgment. It is primarily because of the real estate market in the area, I understand.

Mr. TAYLOR. I will also offer that we continue to look. This is a very complex process, and we continue to look. So far, I think Mr. Black's representations are fair.

Mr. MORAN. Yes. Very good. I am impressed we could establish that for the record.

In May of 1990, *Regardie's* magazine came out with an article—you couldn't miss it; it had a picture of a sheik on the cover. The title was "Who Owns First American?" And there were two subsequent articles in the *Wall Street Journal* that showed the background and seemed to confirm the fact that First American was, in fact, controlled by people who also represented BCCI.

Was there specific action taken in reaction to that information? Did you already have all that information available? Did you just decide that this is not our responsibility unless we get a formal charge? Or was, in fact, action taken that you could show that the Federal Reserve was on the ball and reacted immediately to information that certainly was relevant to your supervisory responsibilities?

Mr. Mattingly.

Mr. MATTINGLY. At that point we were in the process of negotiating an information-sharing agreement with the New York County district attorney in New York to try to get to the bottom of this thing. And in August and September, the Federal Reserve attorneys and others met with the New York County district attorney's office, reviewed information from the grand jury; and it was



through that process that we eventually got the tip about the report.

Mr. MORAN. So that information was already known by you, there really wasn't any new information you were not fully cognizant of at this time in 1990?

Mr. MATTINGLY. We had a lot of that information in the files, and we did review that. We talked to people about it. As I say, we were in the process then of actually talking to the county attorney in New York to try to get what information he had about that very subject.

Mr. MORAN. Fine.

Mr. Chairman, may I ask one final question? It will be a short one.

Thank you.

When you went through all of the extensive discussions with the representatives of CCAH—and they must have shown you or been required to show you the source of their financing purchase of CCAH, where if we buy a house or an automobile or whatever, we have to show the source of our financing. Did they either not disclose fully or deceive the Federal Reserve in terms of the actual source of their financing that enabled them to purchase CCAH?

Mr. MATTINGLY. Right. That it is the unusual thing about this case. The people who in 1981 were—came in to buy the stock, they had the money to buy this bank. They didn't have to borrow a single dime from BCCI or anyone else. We have statements from banks indicating that the largest shareholder has millions of dollars on deposit there.

It wasn't a situation where the people who were proposing to buy the bank didn't have the money. They had the money.

Mr. MORAN. So you assumed it was just cash out of pocket they were using?

Mr. MATTINGLY. They said it. They had these balances. We said, show us the balance. They showed us the balance.

Mr. MORAN. And we only find out after the fact that they were noncollateralized, no-interest, no-term loans that they were getting from BCCI; in other words, acting as fronts for BCCI?

Mr. MATTINGLY. We found that out at the end of 1990 and 1991.

Mr. MORAN. And you don't feel there is any way you could have uncovered that information in retrospect? That is my last question.

Mr. MATTINGLY. I am not going to say that. I think that there are things that we might have been able to do that might have led us a little earlier to where we are now. But we did everything that we could on our radar screen at that time to check those allegations.

Mr. MORAN. I am going to ask—I am not going to ask you for a response right now, but I will ask for the record if you have any indication as to the total amount that Mr. Clifford and Mr. Altman received as a result of their relationship with CCAH, BCCI, and First American, it might be relevant.

With that, I will conclude my questions. Thank you, Mr. Chairman, and thank you very much for conducting this hearing. I know that it is important to the entire American public, and we appreciate your diligence in this issue.

The CHAIRMAN. Thank you very much, Mr. Moran. We have tried since 1989 to maintain a sense of urgency and priority. It is very hard to overcome even here within our own institution the inertia and the attitude that, as long as the roof hasn't caved in altogether, it will be business as usual.

This isn't business-as-usual time. We are on the payroll. We get our check for each day of the week. So I hope sooner or later the majority Members of this great Congress will realize that we cannot continue business as usual. We are going to have to have this expedited, and particularly on the committee level; so that is all we are trying to do.

I would like to sum up, and I am going to impose on your patience a little bit more. What we have found most frustrating—and let me remind all persons present here in the constellation of what we call “full standing committee,” when it comes to budget, we are not on top. Commerce and Energy, for instance, has almost twice the budget the Banking Committee has. They have a staff commensurate in that different range.

We have tried, since the beginning, 1988, when we discovered that it would be the decision of the Policy and Steering Committee that I be chairman, I found out with quite a shock in December 1988 that there would be difficulty in meeting the payroll, because of the way the accounts have been kept, but mostly because we had lost \$300,000 as of October 1, because that amount of money had been turned back by the committee to the House Administration Committee.

Ever since then, we have been trying to catch up. Let me say that also, in the peculiar administrative setup in our bureaucracy, I, as full chairman of the full committee, actually have 10 percent of the staff. We have less than 19 staff members on the full committee. We have eight subcommittees; and one subcommittee, for instance, has just about one staffer less than what we have on the full committee. Ninety percent of the legislative effort has come from the full committee level.

But even given these restrictions, I don't know that more money and more staff necessarily means more efficiency and dispatch in trying to catch up with the past. We didn't do what we should have done. And then, trying to keep pace with the present and anticipate the future in this high state of flux.

But it has been frustrating to find, for instance, that in the case of the BNL, which I think is the matrix of the case and the problem that we have got, we asked the Federal Reserve for information. One question was, does the Federal Reserve maintain accounts with these central banks? And we listed some of the countries. What is the nature of these accounts? Gold holdings? Deposit accounts? Clearing accounts? What were the balances of such accounts on May 1 1990, June 1, and so forth?

The answer was the central banks, for instance, the Central Bank of Iraq maintains—it may still in the form of private accounts—money in several of our U.S. banks, Manufacturers Hanover, The Bank of New York, just as an example.

Now, we are told, there is no way we can let you know. Why? The institutions you referred to in question number one maintain

deposits and custodial accounts at the Federal Reserve Bank of New York.

Those accounts are used for investment in U.S. Government obligations and certain other financial assets. Under the terms and conditions of the agreement governing each account, the Federal Reserve Bank of New York is obligated to maintain confidentiality of account information. This applies to all correspondent accounts the Federal Reserve Bank of New York holds on behalf of 170 foreign and central banks and monetary authorities.

The Federal Reserve believes this obligation should be respected. For our part we expect U.S. authorities to maintain confidentiality with respect to the size and the nature of foreign and central banks' holdings. But our system is a much vaunted system, of private banking enterprise. But in every one of these 170 cases, most of these banks are nongovernment owned and controlled. The Italian government, for instance, has about 75 to 80 percent ownership of the BNL. So we are not playing on that same ground, on that same field. And this is something that I don't think America is aware of. I am privy, it seems strange for me to say it, to the thinking of some of the most internal considerations of great international bankers, and their attitude to the United States is, it is a joke. They laugh at us. We are Uncle Sap, not Uncle Sam.

So here we are. We are told, well, if the Central Bank of Iraq, and that might mean Saddam Hussein himself, has a private account in our banking system, we can't get behind it or we can't let you know, Mr. Congressman. For our part, we expect the Federal Reserve to be concerned that the Federal Reserve Bank of New York would violate the terms and conditions of the correspondent relationship.

But the correspondent relationship isn't parallel, as I said and repeat, because you are dealing with banking interests, central banking interests that are government operated. The danger, as I see it, as I saw in the BNL, is that we are letting our foreign policy in many ways be impacted and perhaps even determined or maybe contradicted by the activities of foreign government-owned banking institutions. I think that is where the national interest is above all exposed.

The other question, regarding financial institutions operating in the United States, asks to provide a list of banks that transferred money to the Central Bank of Jordan or the Central Bank of Iraq prior to the Iraqi invasion of Kuwait. We asked this last year. Please include the date and dollar amount of such transfers.

While the Central Bank of Jordan and the Central Bank of Iraq have accounts in commercial banks in the United States, this is the answer, the Federal Reserve has no knowledge of transactions in such accounts other than in connection with the central bank's account at the Federal Reserve Bank of New York. And I won't read the rest of the reply. I think we had provided it for the committee members, but if we haven't, we will put it in the record now and include it in your kit that you had here this morning.

[The information can be found in the appendix.]

The CHAIRMAN. The reason I am bringing this up is that I would hope that as we go into this question immediately, and I want to remind my colleagues who are left here that when we acted on the

banking bill on June 28, we said that such things as regulatory reform were not going to be put on the back burner, merely because we haven't reached the point of including it in that legislation, and I intend to keep that on the front burner.

We are going to be very busy. And, hopefully, no matter when we adjourn, whether we adjourn before November or later, that we will continue to work as a committee until the beginning of the next session. And, of course, we are in the first session of the 102nd Congress. So we have time. And if we dedicate ourselves, we should succeed. But in the meanwhile, the reason I am bringing this forth is that I hope collectively you and your colleagues can give us some recommendations as to how the national interest can be protected by at least extracting and making it necessary as a precondition that this information be available. And that we in the Congress will not necessarily be denied within constraints and proper limits.

And with that, let me say that I repeat my gratitude to the staff. The staff has been extraordinarily wonderful. On my right here we have the man that has been at the forefront of this. But overall, the staff director, Mr. Meek, who is a very self-effacing gentleman, is the one that has made it all possible for me to work out the agenda, because he is the one that has the ability and the talent and the inspiration to orchestrate and carry on.

But Mr. Dennis Kane is the one that has been very much devoted, day and night for 2 years, on these questions. One of our associate counsel is Barbara Shycoff. And, of course, we have a gentleman that GAO has very generously allowed us to have. Mr. Abiud Amaro, he is from the GAO. This is the way we have been able to work. If we had to depend on our own resources, we wouldn't have been able to do half of this. We have Julie Black, of course, and I won't mention some of the others who aren't here at the moment, but Julie Black who happens to be sitting there in all her glory. And I think one of the investigative staffers, Erik North, no relation to Colonel North, very young, but has been an inspiration to me.

On the minority side, Mr. Wylie had to leave to go back to his district for a commitment in Ohio, but his staff director, Tony Cole, is also one that I should want to particularly select as having been not only cooperative but most helpful in synchronizing the minority and the majority staffs so we can work in harmony. And I notice Mr. Rick Maurano over against the wall. I shouldn't have left him out. I didn't realize he was there until I turned my face. He has worked shoulder to shoulder with Dennis Kane and has been working with this committee for a few years in fact a couple, before I became chairman. So we are very fortunate to have these people, and I will apologize if I don't get all of the full names here of the minority staff. But I do want to thank you profoundly. Gentlemen, you have been most patient. I hope we haven't abused that patience. But you have also been most helpful to this committee.

Some of the members will be submitting questions in writing that you should receive by the time you get the transcript of these proceedings. You will be given a copy of the proceedings, as you know, for your correction and review. And then, if by then, you have the questions, you might address them in writing.

[The information referred to can be found in the appendix.]

Thank you, gentlemen, and those of you that have come from the other end of the country, have a safe trip back home, and thank you for helping us so much. The committee will stand adjourned until further call of the Chair.

[Whereupon, at 2:15 p.m., the hearing was adjourned.]



# APPENDIX

September 13, 1991

Opening Statement of Henry B. Gonzalez, Chairman  
Committee on Banking, Finance and Urban Affairs  
U.S. House of Representatives

Hearing on Bank of Credit and Commerce International  
(BCCI) Investigation

September 13, 1991

This morning we proceed on the second day in the investigation of the role of the Bank of Credit and Commerce International in the U.S. banking system and the performance of the nation's financial regulatory system in monitoring and controlling BCCI's activities.

The BCCI scandal comes against the backdrop of unprecedented financial and regulatory failures that have spread across the nation since the mid-1980's.

We have seen the thrift industry virtually wiped out. The insurance fund supporting this industry became insolvent and the taxpayers are now obligated to pay more than \$500 billion to restore the fund. Some 1,097 banks have failed since 1985--the largest number since the Great Depression. The Bank Insurance Fund is near insolvency and is certain to reach into the U.S. Treasury for help before the year is out. And the biggest banking mess in the nation is right here in Washington--home of every single regulator.

Now BCCI is one more sleazy addition to this mosaic of regulatory failure. While it had few banks under its supervisory wing in the center of the domestic failures in the Southwest, the Federal Reserve stands as the centerpiece of the Federal protections against unsafe, unsound or illegal activities that may be engaged in by foreign banking interests that enter the U.S.

During the past two years, this Committee has spent much time and resources in investigations of foreign banks in the U.S.; first, the Banca Nazionale del Lavoro, and now, BCCI.

The Federal Reserve's performance in both cases was abysmal.

In 1981, the Federal Reserve apparently was conned by Middle East investors carrying wads of BCCI money. The Federal Reserve accepted them as innocent investors in First American instead of as the front men they were for the Bank of Credit and Commerce International. The Federal Reserve's



ready acceptance of the story was helped along by the assurances from Clark Clifford and Robert Altman that BCCI was not involved in the purchase.

But, the Federal Reserve had a distinct responsibility to look beyond those assurances and determine for itself who owned and controlled First American. Certainly, Clifford and Altman brought much credibility to the table, but our banking system is in very deep trouble if regulators are blinded by prominence, wealth and power.

The Federal Reserve gave unbelievably light treatment to a tip that came to it from the Internal Revenue Service in late 1988, suggesting strongly that evidence existed that BCCI, in reality, did control First American. Ultimately, the Federal Reserve ran a cursory check of the tip by going back to the same people who had given the original assurances.

In 1987, Great Britain and other countries where BCCI was operating became concerned about the growing reports of the bank's questionable activities. They formed a so-called "College of Supervisors" to provide a mechanism for the exchange of supervisory information about BCCI. The Federal Reserve was the only supervisory body to shun the group. This self-imposed exclusion from the meetings left the Federal Reserve without extremely valuable information related to BCCI's secret control of First American. For example, the Federal Reserve would have discovered--through the College of Supervisors--that a billion dollars of loans had been provided by BCCI for its purchase of First American stock through nominees.

As the Members know, this Committee adopted a major revision of foreign bank regulation as part of H.R. 6. This effort, in large part, was prompted by our investigation of BNL. This is important legislation, but I'm not certain that it can cure the type of regulatory failures apparent in BCCI. What the Federal Reserve lacked was vigor, creativity and a proper level of skepticism. Without those ingredients, no regulatory statute means much.

**STATEMENT OF THE HONORABLE FRANK ANNUNZIO  
AT BCCI HEARINGS  
FRIDAY, SEPTEMBER 13, 1991**

Like so many hearings that the Banking Committee and the Financial Institutions Subcommittee has held over the past three years, this hearing examines the actions of our financial institution regulators. Like many of the previous hearings, this one will consider whether Federal bank regulators did their job. And, like in so many of those hearings, Mr. Chairman, I think that we will conclude that supervision was inadequate.

By now this should be no surprise to the Members of this Committee. We have seen how the decade of the 80's was one marked by deregulation and relaxed supervision. The Administration and its bank regulators made no secret of their faith in deregulation. The regulatory environment did not encourage aggressive investigation. Time and time again we have seen how troubling information would become known to the bank regulators, and they would take no action. Examiners would identify the shortcomings of numerous banks headed for failure, but take little or no action to stop them.

In that regard, Mr. Chairman, BCCI is just one more example of how deregulation and lax supervision in the 80's have lead to some of the most spectacular financial scandals in American history.

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**Congress of the United States**  
**House of Representatives**  
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**September 13, 1991**

COMMITTEES:  
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AND AGRICULTURE  
HUMAN RESOURCES AND  
INTERGOVERNMENTAL RELATIONS

**OPENING STATEMENT OF REP. SANDERS (I-VT)**  
**IN THE HOUSE BANKING COMMITTEE**

Mr. Chairman, today, we will hear testimony from federal regulators on the matter of BCCI's control of First American. Like the S & L scandal, and the on-going problems in the commercial banking sector, we are going to hear that everyone did exactly what they were supposed to do, but somehow, "systematic and deliberate criminal fraud" was allowed to occur. I feel like I have membership in the Banking-Scandal-of-the-Month Club.

It has been alleged by some that there was deliberate influence peddling. But, it is clear that this is not at the heart of the problem. It is very clear that this kind of "systematic and deliberate criminal fraud", the very words used in pre-filed testimony sent to this committee, could only survive in a climate of regulatory neglect at the highest levels of government, and a financial community where ethics, morals, and patriotism seem to be balance sheets items in short supply.

We are going to hear how the background of these investors was verified with the State Department and the CIA. Not long ago these two organizations would have given rave reviews to Manuel Noriega, or Saddam Hussein. At one time, these two government bodies would also have given passing grades to Marcos, Duvalier, the Shah of Iran and a whole host of other petty despots.

Mr. Clifford and Mr. Altman testified that the Fed had verified the credibility of the "investors" with major multinational banks whose names are familiar to us all. The reason we have federal regulators in the first place is because these people can not be trusted. If this set of circumstances arises in the future, perhaps Charlie Keating or Michael Milken could provide their opinions, both of whom were well respected members of the financial community for some time.

This BCCI scandal is more than an isolated incident that managed to go unnoticed. This BCCI incident demonstrates the need for a serious rethinking of the American banking system. The Big Boys in the financial industry can not be trusted. Federal regulators are unable or unwilling to keep them in check. BCCI is another example of the results of the radical "defacto" de-regulation of the banking industry that occurred under Former President Reagan and continues under the current administration.

I thank you Mr. Chairman, and I am already looking forward to future hearings on the inevitable next banking scandal.

September 13, 1991

Opening Statement of the Honorable Chalmers P. Wylie

Mr. Chairman, I again would like to commend you for holding these hearings. I noticed the article in today's Washington Post concerning Southwest Savings. The problems go on and on. When we get through with BCCI we need to have hearings on Southwest Savings. From the information we have been able to obtain so far, the Bank of Credit and Commerce International was able to gain a foothold in this country as far back as 1982, through the purchase of Financial General Bankshares. Renamed as First American Bank, it proved to be a valuable asset for BCCI that allowed the BCCI group to engage in correspondent banking, move funds, and tap First American for liquidity purposes when necessary. BCCI was also able to obtain state licenses to open a number of representative offices and agencies where money laundering was rampant. I think that it is fair to say that our regulatory system has been compromised.

That being said, I think that it is worth noting how the total liabilities of the BCCI scandal work out in various countries. Out of an estimated \$17.8 billion in total liabilities worldwide, \$3 billion is in the UK, 4 to 5 billion is in the Arab countries, \$1 billion is in Spain, and a total of \$23 billion is the maximum expected loss in the United States. One billion in BCCI assets has been seized in the U.S. to cover any losses. So it would appear there will be no U.S. taxpayer loss.

(2)

These figures seem to indicate just how effective our regulatory system has been in preventing outright fraud in the U.S.

To help us unravel the regulatory origins of BCCI in this country we have witnesses here before us today from the Federal Reserve System. I'd like to thank the Federal Reserve staff for the cooperation we have received in the preparation phase of these hearings. There are a number of questions involving the Federal Reserve's role that are still unanswered. Why did the Federal Reserve approve the 1982 application for Financial General when information was available indicating that some of the investors might be shady characters? How much did Clark Clifford influence the Board's decision? The contrived naivete of Clifford and Altman two days ago only confirmed my suspicions that they knew from the beginning what role BCCI would play. We need to know why it took so long for the Fed to close BCCI down. Did the Fed act timely when they ultimately obtained the proof from overseas as to BCCI activities and how did it ultimately discover the loans from BCCI to Clifford and Altman? I feel that these questions, and others, need to be answered so that we can determine if any legislation is needed to prevent this from ever happening again.

I also think that the overall quality of the regulation of foreign owned banks needs to be addressed. Is the language that

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(3)

we put in H.R. 6 allowing for the increased supervision of foreign banks enough or should we be doing more? And, what is the Federal Reserve doing to improve the coordination of regulatory actions with central bankers and regulators in other countries?

I look forward to hearing from our witnesses.

For Release on Delivery

9:30 A.M. EDT

September 13, 1991

Testimony of

Robert P. Black

President

Federal Reserve Bank of Richmond

before the

Committee on Banking, Finance and Urban Affairs

United States House of Representatives

September 13, 1991

Mr. Chairman and members of the Committee, I shall describe for you this morning the role of the Federal Reserve Bank of Richmond in the supervision and regulation of Credit and Commerce American Holdings (CCAH) and its subsidiaries located in the United States. Since the Bank of Credit and Commerce International's (BCCI) only authorized presence in the Fifth Federal Reserve District was a representative office in the District of Columbia, I shall leave the discussion of the System's efforts to regulate BCCI's activities in the United States to members of the staff of the Board of Governors and my colleagues from the Federal Reserve Banks of Atlanta, New York, and San Francisco. Others have testified on the Federal Reserve System's efforts to deny BCCI's entry into the United States and the original acquisition of First American Bankshares by a group of Middle-Eastern investors. I shall discuss the role of the Richmond Reserve Bank in the application process and describe our supervisory work since the purchase, including efforts to determine whether or not any BCCI ownership or influence existed.

#### BACKGROUND

Financial General Bankshares, as First American was originally called, was one of a very few multi-state bank holding companies that was exempted from the provisions of the Bank Holding Company Act by virtue of its registration under the Investment Company Act. When it became subject to the Bank Holding Company Act in 1966, it controlled banks in Virginia, Maryland, Tennessee, New York, and the District of Columbia.

Other Federal Reserve officials have discussed the attempts by the Middle-Eastern investors to obtain approval of the Board of Governors for the acquisition of Financial General Bankshares, and I shall not review this effort. I would like to point out, however, how the Federal Reserve Bank of Richmond participated in the application process that led to the Board's approval of the second application to acquire Financial General on August 25, 1981.



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The Richmond Reserve Bank shared the same concerns as did many others about the possible involvement of BCCI in the takeover attempt. We participated in the hearing the Board of Governors conducted on the application during which the testimony presented both by individual investors and by their counsel (Clark Clifford and his partner, Robert A. Altman, of the firm of Clifford & Warnke) stated that BCCI would not be involved in the acquisition other than as investment advisor to the individual investors and, in particular, that BCCI would not fund the acquisition. The senior representative of our Reserve Bank specifically asked about BCCI's current and future role and was provided unqualified assurance by Mr. Clifford that BCCI was not involved in the takeover other than as investment advisor and that no other role was contemplated for the future. Similar representations were made to the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), and the banking commissioners of the states of Maryland, Virginia, and New York where First American's subsidiary banks were located.

Despite the assertions of the shareholders and their counsel, the Board conducted thorough investigations of the investors and, in this process, solicited information from the Central Intelligence Agency, the Departments of State and Commerce, and a foreign bank supervisor. None of the background checks uncovered any adverse information regarding the investors. In addition, neither the Board nor any other Federal or State regulator received any evidence that the representations made to them were false.

On the basis of the record of the application, the Reserve Bank saw no legal basis for recommending denial of the application to the Board. On August 25, 1981--after considering the hearing record, the recommendations from the Board staff and the Reserve Bank, as well as the views of the federal and state agencies--the Board approved CCAH's acquisition of Financial General. The acquisition was consummated on April 19, 1982, and Financial General was renamed First American Bankshares in August 1982. Mr. Clifford was named chairman of the board of First American Bankshares, former Senator Stuart Symington became chairman of the board of CCAH, and Mr. Altman was

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elected president of another First American holding company and secretary and managing director of CCAH.

THE PERIOD 1982-OCTOBER 1988

Once the acquisition was consummated, the supervision of CCAH and First American fell to the Richmond Reserve Bank, which also had been responsible for supervising Financial General. In such supervisory work the Reserve Banks perform their bank holding company inspection duties under authority delegated by the Board, and thus work much more closely with the staff of the Board on an ongoing basis than is true in the case of many of our other responsibilities. An inspection, the primary supervision tool for bank holding companies, is designed to ascertain whether the strength of the bank holding company is being maintained and to determine the impact or consequences of transactions between the parent holding company or its nonbanking subsidiaries and its subsidiary banks. The scope of those inspections includes, among other factors, a review of intercompany receivables and payables, earnings, capital, asset quality, and dividend payments to the parent company. In measuring financial strength of a bank holding company, the inspection process focuses on financial indices of both the consolidated entity and its component parts. With respect to the component parts of a bank holding company, Reserve Banks review the reports of examination of its subsidiary banks prepared by the bank's Federal and State regulators. The ability of a bank holding company to maintain an adequate level of capital, as well as to preserve its overall ability to act as a source of financial strength to its bank subsidiaries, is a primary consideration and focus of the inspection. In addition to the regular inspection of a parent holding company, our Reserve Bank monitors the condition of the entire holding company through the review of regulatory reports filed quarterly, semiannually, or annually with us or other regulatory authorities.

Since the acquisition of the First American banks by the Middle-Eastern investors, the company has been inspected by the Richmond Reserve Bank eight times. The Richmond Reserve Bank does not examine any of the company's

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subsidiary banks, since none are state member banks. These inspections have included the review of the reports of the other bank supervisors to verify the condition of the individual First American banks and, most importantly, to determine whether the FDIC, OCC, or respective state bank supervisors uncovered any improper or illegal BCCI connection concerning actions taken by either the investor group or BCCI.

In the years immediately following the acquisition, there was no evidence developed through the supervisory process to suggest that CCAH and First American were functioning other than in accordance with the statements made to the regulatory authorities at the time of the application. During this period, the Reserve Bank's inspections found compliance with the conditions and commitments of the original application and no violations of the law. The examiners in charge of these inspections, I should emphasize, were well aware of the Federal Reserve System's concerns about the investors and the possible involvement of BCCI. The examiners regularly discussed the relations between the investor group with various members of the company's senior management team, both to determine compliance with the commitments and to probe for involvement of the BCCI group. In addition, numerous discussions were held with other bank regulatory agencies responsible for supervising First American's subsidiary banks, and no adverse information surfaced about the banks from them.

The examination and inspection record between 1982 and late 1988 is clear. Neither the reports of our First American inspections nor any of the reports of examination prepared by other Federal and State regulators contained comments or criticisms regarding involvement of, influence by, or improper payments to BCCI. On the contrary, since the acquisition in 1982 there were no dividend payments by the First American holding companies to the investors and capital injections into the First American organization totaled more than \$500 million.

#### THE PERIOD OCTOBER 1988-1990

In October 1988 indictments of BCCI and its officers were announced, and Federal Reserve Banks with supervisory responsibility over BCCI agencies

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in Florida, New York, and California initiated extensive examination of those agencies. Since our Reserve Bank did not have supervisory responsibility for any BCCI agencies, we did not participate in those examinations.

In early 1989, after BCCI's indictment for money laundering and the emergence of allegations that BCCI and CCAH were linked, the Richmond Reserve Bank conducted a special inquiry into the relationship between CCAH and BCCI. The inquiry included questioning First American senior management on the relationship to BCCI, reviewing records of the organization, and requesting each First American subsidiary bank to report on any transactions with BCCI. The report on our findings of the inquiry, dated February 8, 1989, presented no evidence of irregular or significant contacts between the First American banks and BCCI or any indication that CCAH had failed to adhere to its commitments. Our report disclosed that First American senior management represented to us that the relationship between CCAH, First American, and BCCI was no different than at the time of the original application and that BCCI did not exercise a controlling influence over CCAH. While we found that the degree of common ownership between CCAH and BCCI had increased since the original acquisition of Financial General, the Bank Holding Company Act does not prohibit such common ownership of banks and nonbanks by individuals as it does for companies. Thus, this common ownership, while significant, did not provide grounds for any action on the part of the Richmond Reserve Bank or any recommendation by us for action by the Board.

During this period, examinations of First American's banks conducted by the states of Maryland, New York, Virginia, the OCC and FDIC, also found no irregularities or relationships between First American and BCCI. Consistent with these examinations, our two inspections of First American in 1988 and 1989 found continued compliance with application commitments including finding no linkage between CCAH shareholders and BCCI other than the common shareholder interests, which were not illegal.

#### SUPERVISORY ACTIVITIES SINCE 1990

In December 1990, a senior member of the Board of Governors's staff was permitted to review a copy of BCCI's external auditors' October 1990

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report, which detailed substantial loans made by BCCI to CCAH shareholders secured by CCAH shares. The existence of these loans was later confirmed at a meeting with representatives of the investors held on December 21, 1990, at the Board. As it became increasingly clear that an unauthorized relationship existed with BCCI, an in-depth inspection of the First American organization was initiated in early January under the direction of the Richmond Reserve Bank and Board staff. This inspection was coordinated with examinations of all of First American subsidiary banks to assess the general safety and soundness of the organization. At the same time, extensive discussions were begun with senior staff members at the Board, the Federal Reserve Banks of Atlanta, San Francisco, and New York, and the agencies participating in the coordinated examinations of all the banking subsidiaries of First American, including the FDIC, the OCC, and the banking departments of Maryland, New York, and Virginia.

A significant part of this examination included a review of bank records for any deposits of, payments to, or exposures to individuals or companies related to BCCI or CCAH. The examination is seeking to determine if the resources of First American's banks have in any way been utilized improperly, either directly or indirectly, for the benefit of its owners. To date, a total of 52 examiners from all 12 Federal Reserve Districts with an average experience level of approximately 8 years have expended in excess of 7 man years on this examination. While this examination is ongoing, results to date have not disclosed any abuse of the subsidiary banks or any lending practices that are widely at variance with other area banks, and no additional evidence of BCCI ownership has been uncovered in First American records. Simply put, no connection between the banks' lending practices and their unauthorized ownership by BCCI has been uncovered.

In addition to this ongoing examination process, the Richmond Reserve Bank has been monitoring compliance with CCAH's February 1, 1991, cease and desist order which, among other things, prohibits transactions between CCAH, subsidiary banks of First American, and BCCI except for capital injections into the banks and certain clearing transactions in the ordinary

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course of business. In this role, on March 1, 1991, the Richmond Reserve Bank informed the First American Bank of New York that its clearing transactions for BCCI should be wound down and terminated before the end of 1991. As a result of this action, the transactions between BCCI and the First American Bank of New York were liquidated in an orderly manner so that by July 5, when BCCI was closed, the correspondent relationship had been reduced substantially.

#### CONCLUSION

The Federal Reserve Bank of Richmond will continue to keep examiners on site to monitor the situation and to continue to review transactions of First American and its subsidiary banks for any possible irregularities connected with BCCI. We are working with the staff of the Board to sever any improper connections between BCCI and the First American banks so that the banks will be free of any tarnish they may be suffering from their association with BCCI.

For Release on Delivery  
9:30 A.M. EDT  
September 13, 1991

Testimony by  
Robert P. Forrestal  
President  
Federal Reserve Bank of Atlanta  
before the  
Committee on Banking, Finance and Urban Affairs  
United States House of Representatives  
September 13, 1991

**FEDERAL RESERVE BANK OF ATLANTA TESTIMONY****re:****BANK OF CREDIT AND COMMERCE INTERNATIONAL****AND THE NATIONAL BANK OF GEORGIA****INTRODUCTION**

Mr. Chairman and members of the Committee, I am pleased to appear today to discuss with you the role of the Federal Reserve Bank of Atlanta in the supervision of the Florida offices of the Bank of Credit and Commerce International (BCCI), and in the supervision of the NBG Financial Corporation, the parent bank holding company of the National Bank of Georgia (NBG).

My remarks will first address BCCI. Since the previous witnesses have set forth the supervisory and regulatory framework within which the Federal Reserve System operates with respect to its supervision of international branches and agencies, I will therefore confine my remarks regarding BCCI to the Atlanta Reserve Bank's supervision and regulation of BCCI's offices in Miami, Boca Raton, and Tampa, Florida.



**HISTORY OF BCCI IN THE SIXTH FEDERAL RESERVE DISTRICT**

The BCCI-Miami agency opened on March 15, 1982; the Boca Raton agency opened on September 12, 1983; and the Tampa agency opened on June 29, 1984. Each of these offices was licensed by the Comptroller's Office of the Department of Banking and Finance of the State of Florida. These were not the initial entries by BCCI into the United States, as its first office was opened on September 1, 1981, in San Francisco. Other offices in Los Angeles (February 7, 1983) and New York (April 16, 1984) were also opened.

BCCI also had an administrative office in Miami which supervised Latin American and Caribbean activities, and provided back office support to the three Florida agencies. The administrative office was permitted under Florida law and was supervised by the Florida Department of Banking and Finance.

The Miami agency managed and coordinated the activities of the Tampa and Boca Raton offices, including regulatory reporting to the Federal Reserve. From the opening of the BCCI-Miami office, the Atlanta Reserve Bank carried out its supervisory responsibilities pursuant to the International Banking Act of 1978. As was the case with other Florida agencies under that Act, our responsibility as the residual supervisor of the State-licensed agencies was essentially to assure that the BCCI Florida offices received timely examinations from the licensing authority, the State of Florida.

During this time, our examiners participated in these examinations in a limited manner. Our participation normally consisted of a one or two day visitation of the agency, in which we

conducted a review of financial reports submitted to the Reserve Bank, and a review of compliance with federal banking laws, including the Bank Secrecy Act. These visitations coincided with the State's examinations and during the visitations, our examiners learned the State's preliminary findings. After conducting the compliance visit, Reserve Bank examiners wrote a memorandum detailing their findings and the State's preliminary results. Copies of the State's final report of examination and BCCI's responses were forwarded to the appropriate offices within the Federal Reserve System. Irregularities in compliance with the Bank Secrecy Act were detected at various times during our visitations and resulted in two criminal referrals, which are described below.

In 1983, the Treasury Department referred numerous institutions, including BCCI-Miami, to our attention after finding technical deficiencies in their reporting of transactions subject to the Financial Recordkeeping Act. The deficiencies concerned improper completion of forms designed to report individual cash transactions of \$10,000 or more. We found additional technical compliance problems at BCCI-Miami in a visit in 1984, in which examiners noted the agency had failed to file currency transaction forms for three cash transactions over \$10,000. The agency filed the forms during the examination. Both cases represented isolated technical problems, and did not raise suspicions of money laundering. In each instance, agency management took corrective action. In March 1985, while visiting during the State's examination, Reserve Bank examiners detected suspicious

transactions carried out by a customer of BCCI-Miami. After becoming aware of the transactions, the agency ceased doing business with the customer. To our knowledge, this customer has not been implicated in subsequent indictments of BCCI.

Following the receipt in August, 1985, of the State's March 1985, final Report of Examination of BCCI-Miami which noted continued asset problems, the Atlanta Reserve Bank conducted an independent examination of the Miami office in October, 1985. The examination revealed a significant deterioration in asset quality. However, no further evidence of suspicious transactions was noted at the time. As a result of the deterioration in asset quality, the Atlanta Reserve Bank requested BCCI begin quarterly reporting on its classified assets.

While participating in an April 1987 examination of BCCI-Miami, examiners discovered possible money laundering transactions that appeared to be structured to evade reporting requirements. The transactions were detected in a review of checks and money orders sent from BCCI-Panama to BCCI-Miami for payment.

The following circumstances prompted examiners' suspicions. BCCI-Miami frequently received such deposits from BCCI-Panama, consisting of 300 to 500 individual money orders totaling \$300,000 and more. These money orders were all purchased from institutions in the New York City area and were issued in bearer form, then stamped payable to the order of one account number. No other endorsements ever appeared. The purchasers of the money order wrote in their name and address and the date purchased. The same

handwriting appeared for different names and different addresses. Some money orders bore sequential numbers but were given different purchase dates. These transactions appeared to be designed to facilitate a money laundering operation. A criminal referral concerning the activities discovered at the Miami agency was filed with the U. S. Attorney's office in Miami, and the Federal Bureau of Investigation in North Miami Beach on May 18, 1987. The staff of the Board of Governors copied the referral to the Internal Revenue Service, Washington, D.C. on June 5, 1987.

In October, 1988, the U.S. Attorney in Tampa issued indictments against BCCI and several employees for money laundering. In connection with the indictments, U.S. Customs agents searched the offices of BCCI in Florida over the weekend of October 8.

Reserve Bank examiners entered the Miami, Boca Raton, and Tampa agencies to monitor liquidity and review operations in the week following the search by law enforcement officials, and remained on-site for several weeks until the situation stabilized. Our efforts were part of a System review of all of BCCI's U.S. offices. During this period, activities resulting in the Atlanta Reserve Bank's second criminal referral were discovered. Federal Reserve examiners detected two separate series of suspicious transactions while on-site at BCCI-Boca Raton. Both cases were similar to the scheme detected in Miami in 1987. Our ability to investigate the suspected schemes was limited because many original records had been seized by law enforcement authorities in their

search. The second criminal referral was filed on November 7, 1988, with the U. S. Attorneys in Tampa and Miami, and the FBI. The staff of the Board of Governors sent a copy of the referral to the IRS, Washington, D.C. on November 14, 1988.

Copies of workpapers and documents supporting the two referrals were provided in response to a subpoena from the U.S. Attorney in Miami on February 27, 1989. Reserve Bank personnel have continued to cooperate with law enforcement authorities, including the U.S. Attorney, the Federal Bureau of Investigation, and the Internal Revenue Service, on matters relating to BCCI. On June 12, 1989, the Reserve Bank received a second subpoena, from the U.S. Attorney in Tampa, Florida, requesting all records relating to BCCI, the National Bank of Georgia (NBG), and related companies. All information was supplied as requested.

As a result of the System's review of BCCI's U.S. operations in 1988, a cease and desist order against BCCI was issued by the Board of Governors on June 12, 1989, requiring BCCI to strengthen U.S. operations and enforcing compliance with the Bank Secrecy Act. The Reserve Bank conducted an independent examination of BCCI-Miami as of September 30, 1989, to assess the condition of the agency and determine compliance with the Board's order. This examination was coordinated with other Reserve Banks' examinations of BCCI's U.S. offices. Examiners noted significant asset quality problems, and weaknesses in credit administration, internal controls, and the audit function.

The need for further examination of BCCI's Florida offices was eliminated when the Tampa and Boca Raton offices closed in September, 1989, and the Miami agency closed in January, 1991.

#### **RESERVE BANK'S SUPERVISION OF NBG**

##### **Application History of NBG**

Ghaith Pharaon, a Saudi Arabian national, acquired a 60% interest in NBG in 1978, and continued to acquire stock in NBG until by December 30, 1980, he owned 98.6% of total outstanding shares. Because NBG was a national bank, the Comptroller of the Currency (OCC) was its primary regulator. According to information supplied by the Office of the Comptroller of the Currency (OCC), Pharaon purchased the shares in NBG from Bert Lance and other numerous individuals, through direct negotiations and through tender offers. A change of ownership notice was filed with the OCC on August 7, 1978. The Reserve Bank was not a party to this notice because NBG was not yet owned by a holding company.

Pharaon incorporated GRP, Inc. in Georgia in March, 1981, for the purpose of forming a bank holding company. The Reserve Bank learned of Pharaon's intent and requested information regarding his financial strength and business activities. No negative information was received.

Pharaon's banking interests first came under the jurisdiction of the Atlanta Reserve Bank in July, 1981, when GRP, Inc., filed an application to become a bank holding company by acquiring an existing bank holding company and its bank subsidiary -- not NBG -- located in Cobb County, Georgia. The Reserve Bank approved the

application in October, 1981, based on the following factors: 1) the positive impact of Pharaon's ownership on his existing banking interests, as evidenced by the OCC's recognition of the improved condition of NBG, and Pharaon's injection of \$3 million to improve its capital; and 2) Pharaon's ability to repay debt associated with the acquisition, and provide continued support to the holding company. Pharaon's financial statement showed a net worth in excess of \$100 million, not including the bulk of his assets which were in Saudi Arabia. Pursuant to the application, GRP, Inc. acquired the Cobb County bank, and thus, became subject to the Reserve Bank's supervision.

The Federal Reserve Bank of Atlanta's supervision and regulation responsibility for NBG's parent bank holding company began in November, 1981, when Pharaon filed applications to place his stock in NBG under his existing bank holding company, GRP, Inc., and to acquire two more banks, in Clayton County, Georgia, and in Gwinnett County, Georgia. In evaluating the applications, the Atlanta Reserve Bank again considered Reports of Examination, issued by NBG's primary regulator, the OCC, which indicated that NBG had improved under Pharaon's ownership, and again reviewed Pharaon's ability to financially support the bank, by requesting a summary of the sources of the most recent year's income, and a list of annual obligations. Pharaon again provided evidence of a non-Saudi net worth in excess of \$100 million, and committed to make an additional capital injection of \$10 million into NBG. He also offered not to take dividends from the bank to allow it to improve

its capital position. The continued improvement in NBG's condition, and Pharaon's ability and willingness to contribute financial support were positive factors leading to the Atlanta Reserve Bank's approval recommendation. The Board of Governors of the Federal Reserve System approved the application in March, 1982, and the parent holding company came under the Federal Reserve's supervision. The OCC remained the primary regulator of NBG, while the Reserve Bank directly supervised GRP, Inc., NBG's parent company.

The Reserve Bank approved the reorganization of NBG's parent holding company structure in two subsequent applications, processed in 1982 and 1983. In connection with the reorganization, GRP, Inc. changed its name to NBG Financial Corporation. The applications involved the creation of two new bank holding companies, and the merger of Pharaon's Atlanta banking interests into a single bank. Pharaon remained the sole shareholder of NBG and its parent bank holding companies. The stated purpose of the proposed reorganization was for estate and tax planning, and to take advantage of a Georgia law related to bank mergers.

Prior to approving these applications, the Reserve Bank again considered the condition of banks controlled by Pharaon, reviewing reports of examination from the OCC and the State of Georgia, and considered his ability to provide financial support for NBG. According to the application, the transactions would not require any parties (Pharaon, the bank, or the holding company) to incur additional debt. The projected cash needs of NBG Financial



Corporation, the "new" bank holding company, would be met through Pharaon's personal resources. After considering these factors, the application was approved. The transactions proposed in the applications were consummated in 1983.

In response to the Committee's question, let me reiterate that, during this period, there was no information or evidence to indicate that Pharaon was not in fact the owner of NBG or that his source of funds for acquisitions differed from that he reported. Pharaon had been the owner of record of NBG for several years prior to the formation of the holding company, and he had established a satisfactory record during his control of the bank, as evidenced by the improvement in condition of the bank, his ability to make capital injections, and his ability to defer dividends.

In January, 1985, the Atlanta Reserve Bank recommended that the Board of Governors approve an application filed by NBG to convert an existing wholly owned service subsidiary to an Agreement Corporation, called NBG International Bank. (An Agreement Corporation is permitted to conduct business of an international nature only, similar to an Edge Act corporation. NBG could not own a Edge Act corporation because Pharaon was not a U.S. citizen.) The approval recommendation was based on an evaluation of the condition of NBG, using Reports of Examination provided by the OCC, and other financial data supplied by the applicant. The Board of Governors approved the application on February 25, 1985.

The Atlanta Reserve Bank received an application from NBG International Bank in 1987 to increase the authorized capital stock in the Agreement Corporation. The application was submitted to correct an inadvertent violation of Regulation K. The corporation increased its capital stock without prior approval from the Reserve Bank. The Board of Governors approved the application on April 26, 1989, after NBG International Bank took steps to ensure further violations would not occur. On October 23, 1987, the Atlanta Reserve Bank approved an application by NBG International to change its name to First American International Bank.

Inspection/Examination Supervision of NBG and NBG International Bank

The activities and financial condition of NBG's parent bank holding company were routinely monitored by the Federal Reserve Bank of Atlanta, through inspections of NBG Financial Corporation, and examinations of NBG International Bank, according to the supervision programs adopted by the Board of Governors of the Federal Reserve System. These supervision programs were developed pursuant to the authority granted in the Bank Holding Company Act of 1956, and its various amendments, and Section 25(a) of the Federal Reserve Act.

The bank holding company supervision program focuses on assessing the condition of the bank holding company and determining its ability to serve as a source of strength for its subsidiaries. In 1978, annual inspections were mandated for companies with assets in excess of \$300 million. In accordance with this program, the

Atlanta Reserve Bank inspected NBG's holding company once each year from 1983 through 1986. Each inspection considered the ability of the bank holding company to support its bank subsidiaries, and found the contribution of the sole indirect shareholder, Ghaith Pharaon, to be positive. Never in the course of our supervision of the parent holding company, including reviews of the Examination Reports of the primary regulator, the OCC, did the Reserve Bank discover any information indicating BCCI's ownership of NBG Financial Corporation.

NBG International Bank (now First American International Bank) has been examined annually by the Atlanta Reserve Bank since its inception.

NBG Financial Corporation was acquired by First American Bankshares, Inc., Washington, D.C., on August 19, 1987. The acquisition application was processed by the Federal Reserve Bank of Richmond, the responsible Reserve Bank for First American Bankshares, Inc.

#### **CONTACTS WITH OTHER REGULATORS**

In keeping with the regulatory structure proscribed in the Bank Holding Act of 1956, and the International Banking Act of 1978, the Reserve Bank has maintained regular contact with the State of Florida, and with the Comptroller of the Currency in its routine supervision of BCCI and NBG's parent holding company, relying, as directed by statute, on the reports of these other supervisory agencies whenever possible. When concerns regarding the condition of BCCI's Florida agencies arose, the Reserve Bank

departed from its usual residual supervision and conducted an independent examination to directly assess BCCI's condition. The Reserve Bank continues to participate in coordinated investigations of BCCI and related parties within the Federal Reserve System and is also continuing to cooperate with law enforcement agencies in their ongoing investigations of BCCI and NBG.

#### **SUMMARY**

In summary, the Federal Reserve Bank of Atlanta supervised BCCI's and NBG's activities in the Sixth District as directed by the International Banking Act of 1978 and the Bank Holding Company Act of 1956. We made criminal referrals of suspicious activity and increased our on-site presence as warranted. With respect to NBG and First American, we evaluated on several occasions the owner of record, Pharaon, and had every reason to believe that he was a person of substance financially, and that he was acting on his own behalf. Throughout this period, we have cooperated with law enforcement agencies in every way possible, and even at the present time, are contributing an examiner to the U.S. Attorney's ongoing efforts in Atlanta.

For release on delivery  
9:30 A.M. EDT  
September 13, 1991

Testimony of  
J. Virgil Mattingly, Jr.  
General Counsel  
and  
William Taylor  
Staff Director  
Division of Banking Supervision and Regulation  
Board of Governors of the Federal Reserve System  
and  
E. Gerald Corrigan  
President  
Federal Reserve Bank of New York  
before the  
Committee on Banking, Finance and Urban Affairs  
United States House of Representatives  
September 13, 1991

We are pleased to appear before the Committee to describe the Federal Reserve's role in the supervision of the Bank of Credit and Commerce International ("BCCI") and the Federal Reserve's investigation of BCCI's secret acquisition of the shares of several U.S. banking organizations.

This testimony will focus first on the operations of BCCI around the world, particularly BCCI's use of a fragmented, unsupervised structure operating in foreign jurisdictions with minimal supervision and strong bank secrecy laws; second, on the Federal Reserve's efforts to deny BCCI entry into this country; third, on the Federal Reserve's continuing investigation, which has detected and produced hard evidence of BCCI's secret acquisition of the stock of U.S. banks; and finally on the very valuable lessons learned from the Federal Reserve's experience with BCCI.

In considering these matters, we believe that five major points should be stressed.

First, the Federal Reserve has never approved any presence by BCCI in this country, and for that reason BCCI has never been authorized to take deposits from U.S. citizens through an insured bank. Our investigation indicates that BCCI was aware that the Federal Reserve presented a serious obstacle to acquisition of banks in this country -- a fact that may well explain BCCI's campaign to acquire illegally and surreptitiously the shares of U.S. banking organizations through a complex web of nominees and sham loan arrangements.

*Second*, in 1987 and 1988, the Federal Reserve detected money laundering and operational problems at the state-licensed agencies BCCI established in this country. Through the action of the Federal Reserve and state regulators, BCCI's U.S. agencies were eliminated or substantially wound down over the next three years. By the time of BCCI's seizure on July 5, 1991, BCCI's U.S. operations had shrunk from about \$1 billion to \$250 million, and BCCI's two remaining U.S. agencies had less than \$25 million in liabilities to third parties. Thus, at the time of BCCI's closing, the vast majority of funds at its two remaining U.S. agencies were its own. This sets the United States apart from numerous other countries in which local depositors have lost their funds, or access to their funds, as a result of the seizure of BCCI.

*Third*, the Federal Reserve did act to prevent an illegal BCCI presence in this country when Middle Eastern investors applied in 1978 and 1980 to acquire Financial General Bankshares, now renamed First American Bankshares. In considering the application in 1980, the Board sought to make certain that BCCI did not have a stake in the holding company formed to make the acquisition, Credit and Commerce American Holdings, N.V. ("CAH"), and was not funding the acquisition.

Although the Federal Reserve did not have at that time any evidence of fraud or illegality in BCCI's overseas banking operations, the Federal Reserve nevertheless was concerned by

BCCI's unregulated character and rapid growth. Concerned also because BCCI was acting as adviser to the investors, the Federal Reserve sought to ensure that BCCI would not gain control of First American. The Federal Reserve received explicit commitments from BCCI, the investors, and their representatives that the acquisition of First American was being made with the investors' own funds and that BCCI would not acquire any CCAH shares or finance the investors. The Federal Reserve did not accept these representations without question, but made substantial efforts to verify what it was being told.

The Federal Reserve requested and received from the investors financial statements and other documentation confirming the various representations. The numerous materials submitted by the banks and accounting firms of the principal shareholders indicated that the investors were persons of substantial wealth fully able to make the investment using their own funds and without borrowing from BCCI or anyone else. Even today, it is undisputed that some of the principal investors are persons of great wealth. Further, the Federal Reserve conducted background investigations of the investors: the Departments of State and Commerce stated that the investors were persons of substance and, along with the CIA, reported no adverse information on the investors. Finally, the Federal Reserve took the unusual step of holding a hearing on the application at which the largest investor, three other investors, and the investors'



representatives appeared and further denied any BCCI involvement in the investment or its financing.

Throughout this process, there was no evidence that the shareholders and their representatives were being untruthful in their written and oral statements that BCCI was not involved in the financing of the acquisition. Under the Bank Holding Company Act with its due process requirements, the Federal Reserve is not authorized to act on suspicion or rumor, but must have evidence to support its decision. The Federal Reserve had no grounds at the time to deny and, operating under this statutory standard, approved the application. The necessary state authorities approved as well.

Fourth, since allegations of an illegal BCCI-CCAH link reached the Federal Reserve in late 1988 from the IRS and another source, the Federal Reserve has continuously investigated the relationship between the two, detecting and producing, in our view, substantial evidence of violations by BCCI and others of the Bank Holding Company Act and other statutes.

In January 1989, following receipt of these allegations, the Federal Reserve conducted a special review of CCAH and its relationship to BCCI, examining the financial relationship between BCCI and the First American banks. The Federal Reserve continued to make inquiries into any possible link through 1989 and 1990. BCCI and CCAH representatives consistently denied that such a link existed, and the records

available to the Federal Reserve at that time provided no evidence to refute their assertions.

The Federal Reserve asked regulators in Luxembourg and the Cayman Islands, where the principal BCCI bank subsidiaries were chartered, to verify the reports of a BCCI-CCAH link. The Luxembourg regulator in 1990 advised that it would investigate the matter, but was having difficulty obtaining the necessary information. Cayman regulators stated that they had no relevant records on the matter.

The Federal Reserve also sought information from law enforcement agencies conducting probes of BCCI. In June 1989, while the U.S. Attorney's Office in Tampa was continuing its investigation of BCCI, a Federal Reserve official met with attorneys from that office, offered the assistance of examiners and indicated that the Federal Reserve wished to obtain information on the investigation when completed. On February 7, 1990, two days after BCCI was sentenced for money laundering, two experienced Federal Reserve counsel went to Tampa to determine from the U.S. Attorney's Office whether their investigation had unearthed any evidence that BCCI owned or controlled CCAH. The U.S. Attorney's Office referred Federal Reserve counsel to IRS investigators, who indicated that a report of the findings on their investigation had been prepared. The IRS did not provide a copy of the report, or mention any tapes made during their investigation, due to considerations of grand jury secrecy and

witness safety. The Federal Reserve investigators were told of the existence of an informant, whose credibility the IRS said they seriously doubted, and of another lead. In April 1990, the IRS provided the name of the informant and arranged for him to call the Federal Reserve. The Federal Reserve was unsuccessful in repeated attempts to contact the informant until 1991.

In further efforts to obtain information on the alleged control by BCCI of CCAH, the Federal Reserve, in the spring of 1990, pursued another avenue of the investigation. In June 1990, the Federal Reserve reached an information sharing agreement with the New York County District Attorney's Office, and subsequently obtained access pursuant to a New York Supreme Court order to certain of the materials presented to a state grand jury investigating BCCI. This agreement and the information sharing and ongoing collaboration of the Federal Reserve and D.A.'s Office were to be of great benefit to both agencies in uncovering evidence of what Mr. Morgenthau, the New York County District Attorney, has characterized as the largest banking fraud in history.

In the fall of 1990, the Federal Reserve, acting on information provided to us by the New York County D.A., demanded and -- after initial refusals by BCCI's auditors, Price Waterhouse -- was able to review at BCCI's London offices a report confirming the existence of over \$1 billion in nonperforming loans by BCCI secured by CCAH shares. Based on the

evidence gathered by Federal Reserve investigators, the Board, on January 4, 1991, formalized and broadened the investigation, authorizing use of discovery and subpoena powers. Later that month, the Federal Reserve initiated examinations of the entire First American banking organization, focused on determining whether there were any financial dealings with BCCI.

The Federal Reserve's investigation has been intense and thorough, encompassing seizure and review of tens of thousands of pages of documents both here and abroad, weeks of depositions, interviews of more than 50 different persons in the United States and overseas, and cooperation with federal, state and foreign law enforcement agencies. The evidence unearthed by our staff establishes the nature and extent of numerous violations of law, the methods by which the violations were engineered and implemented, and the nature and whereabouts of the evidence establishing the violations.

The quality and quantity of evidence uncovered by the Federal Reserve's investigation is evident from our 110-page July 29 Notice of Charges and the boxes of relevant documents turned over to the Committee under its subpoena. In that Notice and one other issued on July 12 relating to Independence Bank, the Federal Reserve has assessed a civil money penalty of \$200 million against BCCI and initiated actions to bar nine individuals associated with BCCI from involvement with U.S. banks. At the request of the U.S. Attorney for the District of

Columbia, the Board has deferred temporarily the assessment of substantial civil money penalties against the individuals involved pending completion of the U.S. Attorney's criminal inquiry. Finally, after discussions with the Federal Reserve, First American and its parent holding companies have recently changed management in order to further distance the First American banks from the taint of any association with BCCI.

*Fifth*, in assessing the BCCI matter, it is important to keep in mind that this is essentially a case of systematic and deliberate criminal fraud. Although our bank examination powers allowed the Federal Reserve to detect poor operating controls as well as evidence of money laundering at BCCI's U.S. agencies, more extensive and intense efforts were required to uncover BCCI's ownership of stock in U.S. banking organizations. BCCI took maximum advantage of an unsupervised cooperate structure to conceal and warehouse in bank secrecy jurisdictions billions of dollars in fraudulent transactions.

The Federal Reserve does not have the power to coerce truthful testimony from uncooperative criminal conspirators. Nor can the Federal Reserve offer immunity to those willing to come forward. Using the authorities available to it, the Federal Reserve continued to investigate the matter both here and abroad, and we now know that BCCI's top management was seriously concerned with the supervisory initiatives of the Federal Reserve. Eventually our efforts paid off, and we uncovered the

truth. Once the Federal Reserve obtained credible evidence, we acted quickly to marshal the facts and move against BCCI and others involved in the alleged illegal activity. We have also taken care in accordance with the due process requirements under which we operate to bring actions only when we have sufficient evidence to support them, thereby avoiding any misstep at this stage that might allow BCCI and others to escape the consequences of their actions.

The Federal Reserve recognizes that one of the best ways to deter the kind of fraud that occurred at BCCI is through criminal punishment that sends a loud and clear message to would-be offenders. Throughout the Federal Reserve's investigation of BCCI, we have made criminal referrals whenever we discovered illegal activity, and have provided to criminal investigators the evidence and investigative leads that we have gathered, as well as our hard-won knowledge and expertise regarding the BCCI case. We believe that this will be vital to any prosecution of BCCI and others involved in BCCI's illegal acquisitions of U.S. banks. We are greatly encouraged that the New York County District Attorney's Office has secured indictments against BCCI and two of its senior officers, and that the Tampa U.S. Attorney's Office has indicted senior BCCI officers for racketeering involving money laundering. We are continuing to work with the U.S. Department of Justice and New York County D.A., who are actively pursuing the BCCI fraud.

# I. Bank of Credit and Commerce International

## Structure of BCCI

BCCI was founded in 1972 and until recently operated principally under the leadership and management of individuals from Pakistan. Initial equity financing of BCCI was provided by Middle Eastern investors and Bank of America. Bank of America sold its ownership interest in 1980. In April 1990, in order to bolster BCCI's sagging financial position, the ruling family and the government of Abu Dhabi provided additional capital that increased their ownership interest in BCCI shares from about 30 percent to 77 percent.

BCCI's operations eventually encompassed subsidiaries, branches and affiliates in 69 countries, with the largest concentration of local deposits in the United Kingdom. BCCI's total assets of about \$20 billion ranked it as about the 200th largest bank in the world, roughly the size of a major regional bank in this country.

At the apex of the BCCI organization was the parent holding company, BCCI Holdings (Luxembourg) S.A., which was chartered and headquartered in Luxembourg. Below the parent were two principal banking subsidiaries: Bank of Credit and Commerce International S.A., and Bank of Credit and Commerce International (Overseas) Limited, which were chartered in Luxembourg and the Cayman Islands, respectively. Although BCCI was headquartered in Luxembourg, Luxembourg authorities did not supervise BCCI on a

consolidated basis, thereby allowing BCCI to escape normal banking oversight.

Under Luxembourg law, holding companies are not subject to supervision. Thus, BCCI's holding company was able to establish an elaborate and extensive network of subsidiaries and affiliates to carry out its activities. Our investigation indicates that when BCCI encountered a legal impediment, it would often create another affiliate or use one of its myriad existing or affiliated entities to circumvent it. In one instance, BCCI apparently created an affiliate whose sole purpose was to serve as BCCI's alter ego in warehousing fraudulent transactions in which BCCI could not safely engage directly. BCCI was able to do this in substantial part because there was no consolidated home country supervision of its banking activities.

In this regard, it is instructive that during the late 1960s, when U.S. banks began to form holding companies to engage in activities that the bank was not permitted to conduct directly, Congress responded with amendments to the Bank Holding Company Act that provided for increased supervision, regulation and examination of U.S. bank holding companies to ensure that the companies were financially responsible and that their activities were consistent with federal banking laws. No such system was in place with respect to BCCI's holding company.



Supervision of BCCI's Operations in the United States

As noted, BCCI has never been permitted to operate a branch in the United States or to accept deposits from the general public; nor was it authorized to operate or control an insured bank. BCCI at one time maintained state-licensed agencies in New York, San Francisco, Los Angeles, Miami, Tampa, and Boca Raton and representative offices in other U.S. cities, including Washington, D.C. and Houston, Texas. Representative offices can be established simply by obtaining the consent of the state and registering with the Treasury Department, but such offices are severely limited in their activities and may not accept deposits. Agencies may hold credit balances from customers associated with international banking transactions but may not accept deposits from U.S. residents.

As we will discuss later, the unrestricted ability of foreign banks to establish branches, agencies and representative offices without federal review has prompted legislative proposals by the Federal Reserve that would require federal approval of, and establish prudential standards for, foreign bank offices in the United States.

Under current law governing foreign bank operations in the United States, established in the International Banking Act of 1978, the states are the primary regulators of the branches and agencies they license, and the Federal Reserve is directed under the Bank Holding Company Act to rely on state reports of

examination insofar as possible, just as the Federal Reserve is directed to rely on reports by the Comptroller of the Currency for national banks and the Federal Deposit Insurance Corporation ("FDIC") for nonmember banks. BCCI's agencies in the United States were licensed and supervised by state authorities, and therefore primary supervision was in the respective states. As the residual supervisor of U.S. branches and agencies of foreign banks, the Federal Reserve participated in some state examinations and conducted some examinations of its own. During one of these examinations of the Miami agency of BCCI, in April 1987, the Federal Reserve identified money laundering activities, and a criminal referral was filed with the Internal Revenue Service, the Federal Bureau of Investigation and the U.S. Attorney in Miami.

On October 8-9, 1988, as a result of an undercover operation by Customs and IRS dating back to 1986 ("Operation C-Chase"), BCCI and several of its U.S. employees were indicted for money laundering through BCCI's Tampa office. The IRS had advised Federal Reserve staff in September 1988 of the projected seizure and the Federal Reserve had, in coordination with the IRS, scheduled an examination to commence after the seizure so as not to compromise the IRS operation. On October 11, the Federal Reserve, with cooperation from state banking authorities, commenced the coordinated examination of all of BCCI's U.S. agencies through the New York, Atlanta and San Francisco Reserve

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Banks. The examinations of the New York and Boca Raton offices revealed other money laundering activities, and the Federal Reserve made additional criminal referrals in October and November of 1988.

The examinations also revealed that internal controls and lending practices of the BCCI agencies were quite poor and that remedial action was required. The Federal Reserve issued a cease and desist order against BCCI on June 12, 1989, designed to strengthen the U.S. banking operations of BCCI and enforce compliance with currency reporting requirements. This order was issued by the Federal Reserve notwithstanding concerns expressed by foreign and state bank regulators over the potential effect of the action.

Moreover, the U.S. Attorney in Tampa incorporated this cease and desist order into the plea agreement reached with BCCI regarding its illegal money laundering activities. Thus, compliance with the Federal Reserve's order was made a condition of BCCI's probation. This was a unique arrangement, which enhanced the Federal Reserve's ability to enforce its corrective cease and desist order.

The indictment for money laundering in the United States further weakened BCCI's already fragile reputation in the world financial community. In the period following the indictment, Federal Reserve staff was advised that BCCI was experiencing some outflow of deposits in London and was

encountering difficulty in finding counterparties for its banking transactions. In these circumstances and in the face of large losses being discovered in the bank in early 1990, the government and ruling family of Abu Dhabi provided new capital of nearly \$400 million to BCCI, increasing their ownership of BCCI from 30 percent to about 77 percent.

BCCI's problems, however, continued to worsen significantly. On October 3, 1990, Price Waterhouse delivered a secret report to BCCI's board of directors that identified massive additional problem loans. This report gave rise to an intensification of discussions among BCCI management, BCCI's principal shareholder, and European banking authorities concerning possible approaches to a broad-based restructuring of the bank. These discussions continued into 1991.

On March 4, 1991, the Board issued a second cease and desist order against BCCI in part to address concerns about the funding of its U.S. agencies. The order required that BCCI have sufficient liquid assets to cover liabilities in its U.S. agencies. A corollary action by the Richmond Reserve Bank required that First American terminate any residual business with BCCI.<sup>1</sup>

Because of actions taken by the Federal Reserve and state supervisory authorities, BCCI's U.S. operations had been

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<sup>1</sup> The divestiture provisions and other aspects of this cease and desist order are discussed in the next section.

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substantially curtailed by the time of its seizure. Four of the six agencies were closed by January 1991, and the representative offices were closed by August 1990. Under the Federal Reserve's March 4 Order, operations at BCCI's two remaining agencies -- in Los Angeles and New York -- were scaled back, and the company was also ordered to terminate its activities in the United States by year-end 1991.

The Seizure of BCCI on July 5

By early 1991, information received by the Bank of England about BCCI's financial condition and integrity prompted the Bank of England to commission Price Waterhouse to undertake a special audit under the provisions of British banking law. The resulting so-called section 41 report was made available to the Bank of England on June 22, 1991. The Bank of England's filings in British courts indicate that the report disclosed evidence of a complex and massive fraud at BCCI, including substantial loan and treasury account losses, misappropriation of funds, unrecorded deposits, the creation and manipulation of fictitious accounts to conceal bank losses, and concealment from regulatory authorities of BCCI's mismanagement and true financial position.

Based on this report, foreign regulatory authorities in England, Luxembourg and elsewhere decided to seize BCCI. The Federal Reserve was informed of this decision and in turn briefed other U.S. regulatory agencies. The Federal Reserve dispatched senior officials to London to participate in a special unit

established at the Bank of England to coordinate global regulatory actions and to provide a central point of supervisory information and advice. A parallel unit, focusing particularly on payment and settlement issues, as well as activities in U.S. banking markets more generally, was established at the Board and the New York Reserve Bank. The primary concern of the Federal Reserve was to take all reasonable steps to ensure that the seizure of the BCCI banks did not precipitate serious disruptions in U.S. banking markets or in dollar-based payment and clearing systems here or abroad.

The main seizure of BCCI occurred on July 5, 1991, with the Federal Reserve coordinating information necessary for the closing of BCCI's remaining U.S. agencies by state regulators in California and New York. As of July 6, governments of 18 countries had closed or restricted the activities of BCCI operations in their jurisdictions. By July 29, 1991, a total of 44 countries had closed BCCI offices in their respective jurisdictions.

Because of the international cooperative supervisory effort and earlier actions by the Federal Reserve and state authorities to scale back BCCI's limited operations in the United States, the seizure of BCCI caused virtually no adverse effects on U.S. markets or institutions. As a result of earlier regulatory action, BCCI was funding its business in the United States from other non-U.S. BCCI offices and not from U.S. sources

at the time BCCI's U.S. agencies were closed by the states of California and New York. As of July 30, about \$17 million of the \$252 million in liabilities on the books of the U.S. agencies of BCCI was owed to creditors not affiliated with BCCI. Because of the care and precision with which the seizure of BCCI and its affiliates was coordinated among U.S. and foreign authorities, there were in fact no problems of any consequence encountered in the operation of the payments system as a result of the seizure.

We will now proceed to discuss how BCCI, apparently frustrated in its efforts to establish a substantial legal presence in this country, acquired illegally the stock of U.S. banking organizations.

## II. The First American Banks and Other U.S. Institutions

Financial General -- the predecessor to First American Bankshares -- was one of a handful of bank holding companies that were grandfathered under the Bank Holding Company Act to retain ownership of banks acquired in more than one state. In 1966, Financial General owned banks in Virginia, Maryland, Georgia, Tennessee, New York and the District of Columbia.

### Initial Stock Purchases in 1977-1978

On April 29, 1977, an investor group led by J. William Middendorf II acquired control of Financial General. Within a few months, dissatisfaction with his leadership developed among some of the investors, who then went in search of a buyer for their shares. They discussed a purchase of Financial General's

shares with the chief executive officer of BCCI, Agha Hasan Abedi.

In late 1977 and early 1978, BCCI, allegedly acting for four of its clients, began to purchase shares of Financial General. These investors eventually acquired approximately 20 percent of its voting shares, but none purchased more than 5 percent of the shares. The investors were two prominent citizens of Saudi Arabia and Kuwait and two sons of the ruler of Abu Dhabi. In various official filings, BCCI stated that it acted only as investment advisor to these individuals in connection with their purchases of Financial General shares and did not itself own, control or vote any of the shares.

When the purchases were made public, the Securities and Exchange Commission filed a complaint alleging that each of the four Middle Eastern investors, BCCI, Mr. Abedi, and certain U.S. shareholders of Financial General had acquired, as a group, control of more than 5 percent of Financial General's shares in violation of the Williams Act. The investors denied these allegations. In March 1978, the investors, without admitting fault, entered into a consent decree with the SEC whereby the investors agreed to proceed with a tender offer for all of Financial General's shares.

Three of the original four investors proceeded with the tender offer, joined by eleven additional individual and corporate investors from the Middle East who were also advised by



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BCCI. The investors formed CCAH, a Netherlands Antilles corporation, in order to make the tender offer.<sup>2</sup>

CCAHA's Application to Acquire Financial General: 1978-1981

CCAHA could not proceed to acquire Financial General's shares without Board approval under the Bank Holding Company Act. On October 19, 1978, CCAHA filed an application seeking such approval. The application was opposed by Financial General and its Maryland subsidiary bank. On February 16, 1979, the Board dismissed the application, concluding that the acquisition would be unlawful under a Maryland law that forbade any hostile acquisition of a Maryland bank.

The applicants challenged the Board's decision, but before the matter was adjudicated, the investors and Financial General's management negotiated an agreement for the acquisition of Financial General by CCAHA. In November 1980, CCAHA again sought Board approval to acquire Financial General.

In reviewing such an application, the Board is required by statute to consider the competitive effects of the proposal, the financial and managerial resources and future prospects of the companies concerned, and the convenience and needs of the relevant communities. The statutory factors do not distinguish

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<sup>2</sup> There were two other companies in the ownership chain: Credit and Commerce American Investment, B.V. ("CCAI"), a Netherlands company and a wholly owned subsidiary of CCAHA; and FGB Holding Corporation, a District of Columbia corporation and wholly owned subsidiary of CCAI. FGB Holding Corporation was subsequently renamed First American Corporation and was the entity that acquired Financial General Bankshares.

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between foreign and domestic acquirers, and thus these factors were applied to the CCAH application as they would be to a domestic holding company application. Under the Bank Holding Company Act, the Board does not have discretion to deny applications as it chooses. Its decision must be made on the basis of the statutory factors and must be supported by evidence.

The application specified that the Middle Eastern investors were to be passive and would take no part in the management or operation of Financial General. The management of Financial General was vested in a board of directors that would include former Senator Stuart Symington, former Secretary of Defense Clark M. Clifford, and retired Lieutenant General Elwood R. Quesada. Investors controlling over 50 percent of CCAH's shares transferred the power to vote their shares to Senator Symington for a period of five years. An experienced banker was to be selected as president and chief executive officer of Financial General, and this person was identified before the Board acted on the application.

As a result of the SEC case, the Board focused great attention on the relationship between CCAH and BCCI, specifically whether BCCI had a stake in the planned acquisition, either directly or indirectly. The Board's concern was sufficiently serious that the Board took the unusual step of convening a hearing on this and other questions raised by the application,

requesting that the principal shareholders of CCAH appear and testify at the hearing.

In response to the Board's questions, CCAH and its principal shareholders stated that BCCI would not be involved in the acquisition other than as investment advisor to the CCAH investors and, in particular, would not fund the acquisition. At the hearing and in written submissions, CCAH shareholders and their counsel, Clark Clifford and his partner, Robert A. Altman, of the law firm of Clifford & Warnke, made the following statements:

- The application filed by CCAH stated: "BCCI owns no shares of FGB, CCAH or CCAI, either directly or indirectly, nor will it if the application is approved. Neither is it a lender, nor will it be, with respect to the acquisition by any of the investors of either FGB, CCAI or CCAH shares."
- In a letter submitted to the Board in response to questions about the relationship between BCCI and CCAH, counsel for CCAH stated: "With regard to the stockholders of CCAH, all holdings constitute personal investments. None are held as an unidentified agent for another individual or organization."
- Kamal Adham, the largest shareholder of CCAH, stated at the Board's hearing, "There is . . . no understanding or arrangement regarding any future relationship or proposed transactions between Financial General and BCCI." He further stated, "[I]t appears that there is doubt that there is somebody or BCCI is behind all of this deal. I would like to assure you that each one on his own rights will not accept in any way to be a cover for somebody else."
- CCAH counsel, when asked at the hearing about the relationship among CCAH and CCAI and BCCI, stated, "[T]here is no connection between those entities and BCCI in terms of ownership or other relationship."

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- Asked about the function of BCCI in the proposal, CCAH counsel stated, "None. There is no function of any kind on the part of BCCI." He added, "I know of no present relationship. I know of no planned future relationship that exists . . . ."

The same representations were made to the other regulators involved in the application. The Comptroller of the Currency was advised by the investors' counsel that "none of the investors are borrowing to finance their respective equity contributions" and that "BCCI will have no involvement with the management and other affairs of Financial General nor will BCCI be involved in the financing arrangements, if any are required, regarding this proposal."

The Board did not rely solely on these representations that the investors were acting for themselves. The Board requested detailed information from the investors regarding their financial resources and affiliations, including financial statements prepared by accounting firms, some of which were affiliated with the largest accounting firms in the world. Financial statements were submitted, and, in the case of the largest shareholders, a statement about the source of funds to be used to make the acquisition was required. The Board also obtained letters from the largest investor's banks confirming balances and containing references. All these materials indicated that the investors were persons of considerable means and that the purchases were to be made from their own personal resources.

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To further verify that the representations being made were accurate, the Board conducted background checks on the shareholders, soliciting information from the Central Intelligence Agency, the Departments of State and Commerce, and a foreign bank supervisor. The Board also obtained information from the SEC regarding the original acquisition and two CCAH shareholders.

None of the agencies performing background checks -- the CIA and State and Commerce Departments -- reported any adverse information on the investors, and the Departments of State and Commerce reported that the investors were persons of substance. Neither the Board nor any other regulator received any evidence from other sources that the representations made to them were false. The Comptroller's Office wrote to the Board stating that its earlier concerns about the application had been addressed by the responses of the investors and their representatives. The Maryland Banking Board approved the acquisition of the Maryland bank on June 25, 1981.

On August 25, 1981, after considering the hearing record, reports from staff, and the views of federal and state agencies, the Board approved CCAH's acquisition of Financial General. Consummation of the acquisition was delayed, however, pending approval of the New York State Banking Department of the acquisition of Financial General's New York banks. The Department initially disapproved the application, principally

because of an alleged lack of reciprocity for American banks in the investors' home countries. However, on March 2, 1982, the Department granted its approval following CCAH's commitment to divest one of the New York banks. In a subsequent letter, the Department stated that it had made a thorough investigation, that "all the information we received indicated that the investors were prestigious and reputable people," and that "the investors' character and financial responsibility warranted approval of the application." The Department further noted that "this application received more scrutiny from more regulatory agencies than any other application in recent memory."

The acquisition was consummated on April 19, 1982. Financial General was renamed First American in August 1982.<sup>3</sup> Mr. Clifford became chairman of the board of First American, and Mr. Altman was named president of First American Corporation and secretary and a managing director of CCAH.

#### The Period 1982-1987

In the years immediately following the acquisition, the Board received no indications to suggest that CCAH and First American were functioning other than in accordance with the statements made to the Board and the other regulators. The investors adhered to their commitment to inject \$12 million in new capital into First American, and no dividends were paid to

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<sup>3</sup> During the course of the takeover, prior Financial General management had renamed most of the subsidiary banks First American banks.

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the investors in keeping with another commitment. On several occasions, the investors made very substantial additional capital injections, in the hundreds of millions of dollars, to support First American's activities. Both federal and state examinations of First American and its subsidiary banks by the Comptroller of the Currency, FDIC, and the states of Maryland, Virginia, Tennessee and New York, and of the U.S. offices of BCCI conducted during this period, detected no evidence that BCCI and CCAH were improperly linked. The fact that substantial fresh capital was supplied at various times and that the investors did not take dividends from the CCAH was consistent with the representations made by the investors at the time of the acquisition that this was intended to be a personal investment.

The Money Laundering Period -- 1987-1989

As discussed previously, the Federal Reserve through its examination function detected evidence of money laundering in 1987, and appropriate criminal referrals were made. The coordinated examinations conducted following the October 1988 indictment stemming from Operation C-Chase led to further criminal referrals. It is now apparent that the publicity surrounding BCCI's illegal money laundering activities in the United States had the understandable effect of beginning to shake loose insights into other aspects of BCCI's activities and operations in the United States and around the world that only recently have been more fully understood by the international

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community of bank supervisory and law enforcement officials. Insofar as the Federal Reserve was concerned, the first indications of more widespread wrongdoing in the United States began to surface in the period between late December 1988 and the summer of 1989.

Federal Reserve Investigation of the BCCI-CCAH Link: 1989-Present

The information described in this section is based on recent interviews with a number of persons involved in this matter and we are continuing in our efforts to reconstruct the events of 2½ - 3 years ago. Based on this information, we know that, in early September 1988, an IRS special agent investigating BCCI contacted a supervisory official of the Board for technical assistance in connection with the proposed seizure of BCCI's Florida offices and indictment for money laundering. He stated that the IRS was investigating BCCI's money laundering in Florida. The agent explained that this was a sensitive undercover operation and that any leaks could jeopardize lives and compromise the investigation. The agent has recently stated to us that, for these reasons, he could not provide to the Federal Reserve staff member a lot of information or detail regarding the investigation.

The Board staff member had a number of follow up conversations with the IRS agent in late 1988 and early 1989. Probably during a telephone call in December 1988, the agent mentioned an allegation that he had received during the



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undercover operation from a "banker" that BCCI owned First American. The Federal Reserve staff member's calendar reflects a December 27, 1988 call from the IRS agent and that First American and the National Bank of Georgia were mentioned. The staff member recalls that, at some point during their telephone conversations, the IRS agent mentioned the allegation. According to the agent, the Federal Reserve staff member requested the evidence, but was not given the name of the person or other details because the information was not then public. As noted above, during late 1988, the agent and the staff member also discussed and agreed on the timing of the Federal Reserve's coordinated examinations of the BCCI agencies to occur after the indictment.

The agent states that, on December 27, 1988, he telephoned the Federal Reserve staff member, and during the conversation, which was brief, asked what kind of information the Federal Reserve would need to order BCCI from the country. The staff member had told the agent earlier that BCCI was an issue for the Federal Reserve and that, if the evidence were available, the Federal Reserve would order BCCI out of the country. The agent states that he asked, hypothetically speaking, whether a case could be made if he could provide the Federal Reserve with the names of 5 or 6 former BCCI officials who would testify that at an annual meeting of BCCI, a high level official stated BCCI owned and controlled First American. The Federal Reserve staff

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member is reported to have said that such statements would not be enough -- that documentary evidence would be needed. The Federal Reserve staff member recalls that the agent at some point in their discussions mentioned a hypothetical, but does not recall that the agent's hypothetical included mention of 5 or 6 witnesses. The IRS did not provide the name of any witness until 1990, as discussed below.

The IRS agent indicates that on February 2, 1989, he had to travel to Washington for other purposes and decided to meet with the Federal Reserve staff member principally for the purpose of obtaining Federal Reserve information on BCCI and our investigation of the original CCAH application and to secure the Federal Reserve staff member's input into the agent's thinking on the investigation. According to the agent, he was interested in historical information on BCCI and any relationships between BCCI, the National Bank of Georgia, and First American because of earlier information he had obtained during the undercover operation about such relationships. There were several follow-up calls by the IRS to arrange access to Federal Reserve information and subpoenas for examination material. Also, in late December 1988, a Richmond Reserve Bank staff member received a press inquiry in which the reporter referred to an affidavit for a search warrant by an undercover agent stating that, during the undercover operation, a BCCI employee said that BCCI controlled the National Bank of Georgia and other banks.

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A Federal Reserve investigator has subsequently interviewed this witness, who was the source of the allegation mentioned by the IRS agent to the Federal Reserve staff member in December 1988 and who was one of the BCCI employees indicted in October 1988 and convicted in May 1990. The witness stated, consistent with a transcript of his conversation with the undercover agent in September of 1988, that he has no direct evidence that BCCI owns First American and that his statement was based on rumor within the BCCI organization. This witness produced no evidence to support the Federal Reserve's case.

In the spring of 1989, the IRS talked to Richmond Reserve Bank staff regarding information on CCAH and First American and subsequently the Tampa U.S. Attorney's Office subpoenaed all relevant records, including Federal Reserve examination reports and internal documents. During the spring and summer of 1989, Richmond Reserve Bank personnel met with and provided information to the IRS regarding CCAH. The San Francisco and Atlanta Reserve Banks provided information as well.

Richmond Reserve Bank Review: January 1989

Because of these allegations raised by the IRS and because CCAH at that time had before the Federal Reserve an application to acquire another subsidiary bank, the Richmond Reserve Bank undertook in January 1989 a fresh review of any relationships between BCCI and CCAH. During the review, senior management of CCAH and First American stated that the

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relationship between CCAH and BCCI was no different than as represented to the Board in 1981 at the time of the original application, and that BCCI did not exercise a controlling influence over CCAH. The Richmond Reserve Bank examiner requested that Mr. Altman write to the president of each First American bank subsidiary, requiring a report on the relationship of the bank to BCCI and on any transactions conducted with BCCI by the bank. This survey of presidents disclosed no unusual relationships or transactions between the banks and BCCI. New York State authorities had also recently completed an examination of the New York bank subsidiary, during which the examiners focused closely on BCCI correspondent accounts and transactions and detected no irregularities. Moreover, again according to the IRS agent, the Federal Reserve staff member called him sometime in early 1989 requesting any information the IRS had on BCCI links with First American because of a then pending application. The agent said he told the staff member he did not have anything, believing that the request related only to documentary evidence.

In its report on February 8, 1989, the Richmond Reserve Bank found no evidence of irregular or significant contacts between the First American banks and BCCI, or of failure by CCAH to adhere to the commitments it made to the Board in 1981. The Reserve Bank noted that the common ownership of CCAH and BCCI had increased. The Bank Holding Company Act does not prohibit common

ownership of banks or non-banks by individuals, as it does for companies.

Continuing Investigation

During 1989 and continuing into 1990, Federal Reserve efforts to pursue reports of a BCCI/First American link were often frustrated by our inability to obtain the documentary or corroborating evidence necessary to initiate actions against individuals or institutions that we now allege have violated laws and regulations. The Federal Reserve's investigation persisted into 1991, and it was the complex chain of information developed over this period that ultimately led to the needed evidence and our criminal referrals and civil enforcement actions.

During this period, Federal Reserve personnel made inquiries of law enforcement authorities and foreign bank supervisors seeking information. As we noted in the introduction, on June 1, 1989, a Federal Reserve official met with the Tampa prosecutors and stated that the Federal Reserve would be interested in the results of their investigation and would send staff down when the investigation was completed. The official offered the assistance of Federal Reserve examiners. In the summer of 1989, during the course of a meeting on another matter, a senior official from the New York County D.A.'s Office informed a Federal Reserve official of certain unsubstantiated reports that BCCI owned CCAH through nominees. No concrete or specific information as to particulars or evidence was provided.

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On February 7, 1990, two experienced Federal Reserve counsel followed up these contacts by meeting with the U.S. Attorney's Office and IRS investigators who were investigating BCCI and, in June 1990, by arranging an information-sharing agreement with the New York County D.A., who was also investigating BCCI. We have described in the introduction the information on the BCCI/CCAH relationship that these agencies provided to the Federal Reserve during those contacts in 1990.

Also in the fall of 1989, Federal Reserve staff inquired of and received informal advice from a Luxembourg banking supervisor that BCCI had loans outstanding to certain CCAH shareholders. The supervisor did not know when the loans were booked and whether they were for the purchase of CCAH stock or for other business activities of the shareholders. Federal Reserve staff wrote to Mr. Altman on December 13, 1989, asking for information on any loans by BCCI or its affiliates to the original or subsequent investors in CCAH, either directly or indirectly and regardless of the purpose of the loan. Mr. Altman forwarded the letter to BCCI for response.

In February 1990, Mr. Altman responded with a letter stating that no pledge or security interest had ever been recorded on CCAH's share register by any lender. Mr. Altman did not mention the security interest BCCI had held in his and Mr. Clifford's shares from 1986 to March 1988. Mr. Altman also attached the response from the acting chief executive of BCCI,

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Mr. Naqvi, stating that BCCI had not financed the acquisition of Financial General in any respect and that none of the CCAH shareholders had personal loans from BCCI during the acquisition, secured by the CCAH shares. Mr. Adham, the principal shareholder of CCAH, also confirmed by letter in March 1990 that his CCAH acquisition was primarily from personal funds and was not financed by BCCI. In order to check the statements by Mr. Naqvi, Federal Reserve staff subsequently requested the assistance of the foreign bank supervisor that had originally provided information to the Board. The supervisor responded that he had encountered difficulties in obtaining the necessary information but would continue his investigation. An inquiry was also made of the Cayman supervisor, who reported he had no relevant records.

During August and September 1990, Federal Reserve investigators continued to meet with investigators from the New York County D.A.'s Office and obtained access to grand jury materials. In October 1990, the New York County D.A.'s Office informed us that a confidential source had stated that a report prepared on October 3, 1990, by BCCI's outside auditors, Price Waterhouse, indicated that BCCI had made substantial loans to CCAH shareholders secured by CCAH shares. The D.A.'s Office did not have the report, and Federal Reserve staff immediately requested access to it from the United States General Manager of BCCI. After a delay occasioned by the refusal of the auditor to

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permit the report to be examined by the Federal Reserve, BCCI agreed that a member of the Federal Reserve's supervision staff could review the report at BCCI's London office. The review was conducted on December 10, 1990.

The auditor's report and a conversation on that date with the new chief executive officer of BCCI indicated that BCCI had over \$1 billion in loans outstanding, secured by CCAH stock, and that these loans were nonperforming. This confirmed that BCCI held CCAH shares as collateral for substantial loans to CCAH shareholders. Shortly thereafter, attorneys from a U.S. law firm representing BCCI and its Abu Dhabi shareholders contacted the Board's General Counsel to request a meeting. At a meeting on December 21, 1990, BCCI's counsel confirmed that a substantial amount of the stock of CCAH had been pledged to BCCI as collateral for hundreds of millions of dollars in loans to certain shareholders of CCAH. BCCI's counsel identified the borrowing shareholders and the amount of the loans. BCCI's counsel was advised of the seriousness of the matter under the Bank Holding Company Act, and was asked to provide all information regarding the loans and BCCI's arrangements with the borrowers.

Based on this and the other information uncovered during the Federal Reserve's investigation during 1989 and 1990, the Board, on January 4, 1991, issued an order formalizing our ongoing investigation and authorizing the use of subpoena powers.



The Federal Reserve's investigation has been wide ranging but directed chiefly into the circumstances of BCCI's acquisition of control of CCAH and whether false or misleading statements had been made to the Board during the application process in 1981 and subsequently. Thus far, the investigation has included taking weeks of depositions, interviewing more than fifty witnesses, and seizing and reviewing a very large number of documents, including all CCAH records in the United States and the Netherlands Antilles and BCCI loan and other records relating to CCAH located abroad. The investigative team spent a week in Abu Dhabi reviewing BCCI's loan files on CCAH and conducting numerous interviews with BCCI officers.

The Federal Reserve's investigation has uncovered evidence of extensive and secret loan and nominee arrangements between BCCI and customers of BCCI designed to allow BCCI to acquire, in the name of these customers, the stock of the First American banking organization as well as other depository institutions in the United States. These arrangements in many cases involved sham loans to the BCCI customers with side agreements that the customers would not be required to repay or service the loans and that BCCI could sell the shares and retain the profits. In return for their services, the customers received fees and indemnities. These nominee arrangements are described in detail in the Board's civil money penalty and prohibition actions of July 12 and 29, 1991.

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Many of these CCAH loans were never serviced or repaid except through other loans from BCCI. From the evidence available, it appears that these arrangements, particularly in later years, enabled BCCI to generate hundreds of millions of dollars in fictitious assets to conceal massive losses in its trading and lending accounts.

Our investigation has also revealed more about how BCCI's ownership of CCAH stock was concealed from the Federal Reserve and other investigators. The shareholder register and other CCAH records in the United States and the Netherlands Antilles that were subject to Federal Reserve examination or review indicated that the individuals and companies listed in CCAH's filings with the Federal Reserve were in fact the owners of the shares of CCAH. There was no record of a security or other interest by BCCI in the CCAH shares. The documents that evidence the arrangements between CCAH shareholders and BCCI were all maintained outside the United States by the most senior management of BCCI in files that we understand were not available to the bank's auditors. Moreover, documents reviewed during the investigation suggest that BCCI deliberately structured various transactions so as to conceal from the Federal Reserve the relationship between BCCI and CCAH. Finally, there were the numerous denials by BCCI and CCAH representatives that any link existed.

1991 Cease and Desist Order Requiring Divestiture of CCAH Shares

To terminate the illegal relationship between BCCI and CCAH, the Federal Reserve, on January 22, 1991, sent a proposed cease and desist order to counsel for BCCI and made criminal referrals to the Department of Justice. The cease and desist order, which was consented to by BCCI on March 4, had five principal components: requiring BCCI to divest promptly its CCAH shares; significantly restricting business transactions between BCCI and the First American banks; ensuring that BCCI had sufficient liquid assets to cover liabilities in the U.S. agencies; terminating BCCI's residual business presence in the United States; and requiring that BCCI cooperate in the Federal Reserve's investigation.

The order required BCCI promptly to divest its interest in CCAH through a plan to be submitted to the Board for its approval. The order, and a similar one on February 1, 1991 against CCAH, also prohibited transactions between BCCI and the First American banks (other than capital injections into the banks and certain clearing transactions in the ordinary course of business). After entry of the CCAH order on February 1, 1991, the Federal Reserve informed the First American Bank of New York that its clearing transactions for BCCI should be wound down and terminated. As a result of these actions, transactions between BCCI and the First American banks have been steadily eliminated. The relationship between BCCI and the First American Bank of New

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York -- with which BCCI had maintained a correspondent relationship -- was substantially wound down by July 5.

Additional Acquisition of U.S. Depository Institutions

The Federal Reserve's investigation continued after issuance of the March 4 order and discovered evidence that BCCI acquired interests in three additional U.S. depository institutions. Our evidence indicates that BCCI in 1985 acted through a nominee, Ghaith Pharaon, to acquire the Independence Bank, Encino, California, in violation of the Bank Holding Company Act. Independence Bank is a state nonmember bank supervised by the FDIC. The Federal Reserve's investigation also uncovered substantial evidence indicating that BCCI, acting through Mr. Pharaon, acquired during the 1980s a substantial interest in the National Bank of Georgia, a bank supervised by the Comptroller of the Currency. NBG was purchased by First American in 1987 with funds the Board believes were provided to First American by BCCI. Finally, later in the investigation, we uncovered evidence that BCCI financed and acquired control of shares of CentTrust Savings Bank, Miami, Florida in 1988-89, again acting through or with Pharaon.

On May 3, the Federal Reserve issued a second cease and desist order requiring BCCI to submit to the Federal Reserve a plan for the divestiture of any shares of Independence Bank within its control. A criminal referral relating to this violation was also filed.

In conjunction with the investigation, the Federal Reserve has also taken steps to monitor through the examination process the operations of the First American banks, and to determine what relationship the banks have with BCCI. Examinations and special reviews were undertaken by the Federal Reserve starting in January 1991. Over 50 senior Federal Reserve examiners have for the past nine months closely reviewed the First American banking organization, and these efforts continue. In addition, Federal Reserve investigators are working with other federal and state agencies to review transactions that may involve BCCI and related persons.

#### Status of Divestiture Orders

Recent events have made the requirement that BCCI divest the shares of CCAH and Independence Bank under its control the most difficult part of the cease and desist order to achieve. On May 3, BCCI submitted to the Federal Reserve a proposed divestiture plan for the CCAH shares, and on July 3, BCCI submitted a divestiture plan for the Independence Bank shares. The CCAH plan called for transfer of the shares of CCAH held by BCCI, and possibly shares held by other CCAH shareholders, to a trust administered by an independent trustee acceptable to the Federal Reserve. The trustee would vote the stock and negotiate its sale within a time frame agreed to by the Federal Reserve. We found the trust arrangement to be acceptable, but considered the proposal to be deficient because it failed to set forth the

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timing of the sale -- specifically, there were no guarantees that the divestiture would be a prompt one, as required in the Federal Reserve's order. We therefore rejected BCCI's proposal by letter of May 10, and required BCCI to submit within 10 days a revised plan that addressed this concern.

On May 20, BCCI did submit a revised plan, which also relied on a trust arrangement. Although this new plan did not contain a timetable, it did contain details and conditions that appeared to expedite the sale. A preliminary draft of the trust agreement was submitted by BCCI on June 20.

Implementation of BCCI's proposed divestiture plans has been delayed by the seizure of BCCI by regulatory authorities. After those authorities seized control of BCCI on July 5, the officers and directors of BCCI were no longer able to negotiate or effectuate a divestiture of CCAH or Independence Bank stock on behalf of BCCI.

In our view, the July 5 seizure order does not void the Federal Reserve's divestiture orders, however. The orders remain effective and legally binding. The seizure shifts the task of implementing the orders from BCCI to the receivers for BCCI. We have been in contact with the receivers, explaining to them the need to achieve total divestiture as soon as possible, and requesting that they submit promptly a revised divestiture plan. The receivers have indicated a willingness to achieve divestiture

through the trust arrangements, and our discussions are continuing.

Federal Reserve Enforcement Actions to Date

As part of its investigation, the Federal Reserve is proceeding with enforcement actions as the evidence to support such actions is accumulated. On July 12, the Federal Reserve issued a notice of intent to bar from U.S. banking individuals participating in the Independence Bank violation. Those individuals are Agha Hasan Abedi and Swaleh Naqvi, two former senior officers of BCCI; Kemal Shoaib, a former officer of BCCI and the former chairman of Independence Bank; and Ghaith Pharaon, the owner of record of Independence Bank and a shareholder of BCCI.

More recently, on July 29, the Federal Reserve issued a notice of assessment of a \$200 million in civil money penalty against BCCI for its illegal acquisition of CCAH, the National Bank of Georgia and CentTrust Savings Bank. The Federal Reserve also issued a notice of intent to bar permanently nine individuals associated with BCCI from any future involvement with U.S. banking organizations. On the same day, the District Attorney's Office for the County of New York secured indictments of BCCI and Messrs. Abedi and Naqvi. As noted, the U.S. Attorney in Tampa has also recently indicted senior officials of BCCI for racketeering involving money laundering.

The Federal Reserve is continuing to cooperate with law enforcement agencies, and will of course consult those agencies before taking enforcement action so as to avoid prejudicing any criminal investigation. Thus, at the request of the United States Attorney for the District of Columbia, the Federal Reserve has deferred temporarily the assessment of substantial civil money penalties against the individuals already charged, pending completion of the United States Attorney's criminal inquiry.

### III. The Lessons of the BCCI Affair

#### Domestic Initiatives

As a result of the BCCI matter and other recent compliance problems with foreign banks, the Federal Reserve reviewed the statutes, regulations, and supervisory policies governing foreign bank operations in the United States. To help prevent a recurrence of such problems, the Federal Reserve has sent to Congress proposals to control the entry of foreign banks into the United States and strengthen the supervision and regulation of foreign banks once they have entered. Those proposals, collected as the Foreign Bank Supervision Enhancement Act of 1991, have been incorporated into comprehensive banking reform bills that have been reported out of this Committee and its counterpart in the Senate.

This legislation would establish uniform federal standards for entry, operation and expansion of foreign banks in the United States. The proposed legislation includes,



importantly, requirements of consolidated home country supervision and supervisory access to information regarding the banking organization, and the application to foreign banks of the same financial, managerial, and operational standards that govern U.S. banks. The proposal would also grant federal regulators the authority to terminate the U.S. presence of a foreign bank that is engaging in illegal, unsafe, or unsound practices.

As the BCCI affair amply demonstrates, continuing consolidated supervisory oversight of a bank's operations is essential to maintaining the integrity of the bank's operations and preventing adverse effects on the financial system. BCCI operated without a supervisor who could regulate and examine the consolidated financial organization, and BCCI was therefore able to manipulate its books and conceal its actual financial condition with minimal chance of detection.

Of course, the Federal Reserve's legislative recommendations would not guarantee that criminal activity by foreign banks would not recur. Fraud is extremely difficult for any regulator to detect, especially when transactions are deliberately and illegally structured to conceal relationships and when the relevant information is maintained secretly outside the United States. The Federal Reserve's proposals attempt to address the potential for illegal activities by creating a bar to U.S. entry by weakly-capitalized, poorly managed or inadequately supervised organizations.

As a result of recent experience, the Federal Reserve is devoting more resources to examining, tracking and monitoring foreign bank operations and will need to increase resources in this area if the legislation is enacted. In addition, we believe that it would be useful to establish a small unit of trained investigators to handle cases where examination procedures and methods are not sufficient to detect or prove the wrongdoing.

#### Improving International Cooperation

The BCCI case also highlights the pressing need for greater international cooperation among bank regulators.

The vehicle for improved international banking supervision is the Basle Supervisors Committee, comprised of the Federal Reserve and other central banks and bank regulators. That Committee's achievements so far have included the adoption of the Concordat, which is the statement of fundamental principles governing supervision of banks operating across borders, and the establishment of international capital standards.

At its meeting in Stockholm in early September, the Committee, under the guidance of President Corrigan, its newly elected chairman, began discussions of the important lessons to be learned from the BCCI matter. The Committee has commissioned, and hopes to have finished by its December meeting, an issues paper that will consider a range of subjects stemming from the BCCI matter. These include (1) standardized criteria for the

establishment by foreign banks of branches or subsidiaries; (2) what steps can be taken to strengthen procedures for the cross-border sharing of supervisory information, especially in times of stress; (3) whether contagion problems are of such a nature as to render distinctions between branches and subsidiaries of little utility in times of stress; (4) the relationship between home country and host country supervisors as it pertains to the supervision of branches; (5) whether consolidated supervisory responsibility should rest in a single home country supervisor or be shared among several supervisors acting as a college; and (6) whether and to what extent supervisors may require changes in corporate structures where such structures may, by their nature, hinder effective supervision.

One major practical issue confronts the Federal Reserve and other U.S. regulatory agencies in efforts to cooperate with foreign regulators. Whereas certain other Western nations have statutes that protect confidential bank supervisory information obtained from foreign regulators from release to the public or even to the legislature, information obtained by U.S. regulators from foreign sources does not enjoy the same confidentiality. Because as U.S. regulators we may not assure our foreign counterparts that the information that we receive from them will be held confidential, those governments may be less willing, or legally unable, to share information with us fully or completely, or to do so on a regular or timely basis. While we are sensitive

to and respectful of the prerogatives of the legislature to seek and obtain necessary information, we also believe that the conflict between U.S. regulators' need for international cooperation, particularly with increasingly globalization of banking and the need of the Congress to access information for its oversight and investigatory responsibilities is a question that merits careful consideration.

#### Conclusion

The Federal Reserve is actively engaged in dealing with the BCCI matter and has deployed its most experienced and proven staff to the task. The Federal Reserve will continue to cooperate with federal, state, and foreign bank supervisors and law enforcement agencies. Our immediate goals are to conclude our investigation; to make the current separation in fact between BCCI and U.S. banks a complete separation in law, so that these banks can be relieved of any remaining BCCI taint and operate free and clear of this controversy; and to ensure that all wrongdoers are prosecuted civilly and criminally to the extent permitted by law.

For release on delivery  
9:30 A.M. EDT  
September 13, 1991

Testimony of  
Thomas D. Thomson  
Executive Vice President  
Federal Reserve Bank of San Francisco  
before the  
Committee on Banking, Finance and Urban Affairs  
United States House of Representatives  
September 13, 1991

I am pleased to appear before this committee to provide information on the Federal Reserve Bank of San Francisco's supervision and regulation of BCCI and related entities. My name is Thomas D. Thomson. I have overall executive responsibility for the Reserve Bank's supervision and regulation activities, among other functions and, therefore, the supervision and regulation of BCCI in the Twelfth Federal Reserve District. President Parry is unable to deliver this testimony today since he is traveling in Asia to keep a long-standing commitment to meet with other Pacific Rim central bankers.

Overall Federal Reserve supervision of BCCI has been described by other representatives of the Federal Reserve System. My comments will fall into two parts: first, the Federal Reserve Bank of San Francisco's participation in the supervision and regulation of BCCI, and second, our role in the regulation of Independence Bank in Encino, California.

#### Bank of Credit and Commerce International

##### Twelfth District Supervision and Regulation

The Reserve Bank's initial supervisory contact with BCCI was indirect, through the initial acquisition by Bank of America of 2.5 percent of BCCI's outstanding shares on December 21, 1973. Bank of America was a founding shareholder and, over the next three-year period, increased its equity interest in BCCI to 20.0 percent. In 1978, Bank of America began to withdraw from its investment in BCCI and completed its divestment on June 30, 1980.

This Reserve Bank reviewed Bank of America's investment in BCCI annually through the examination of the Edge Act corporation

that held the Bank of America's interest in BCCI. Because it was not a subsidiary, information required to be made available to our examiners was limited to financial data such as balance sheets and income statements, and other documents such as Bank of America's internal investment files on BCCI. Since it was not a controlled subsidiary, no on-site examination was conducted. Our examinations of Bank of America's investment in BCCI during this period did not disclose any suspicious or criminal activities.

BCCI's presence in the Twelfth Federal Reserve District began on September 1, 1981, when its subsidiary, Hong Kong Metropolitan Bank Limited, opened an agency in San Francisco licensed by the State of California. It was converted to a direct office of BCCI on June 1, 1985, and its name changed to reflect its ownership status. BCCI established an agency in Los Angeles on February 7, 1983.

The Federal Reserve Bank of San Francisco has been involved directly in the examinations of both the San Francisco and Los Angeles agencies since their inception as a result of an arrangement with the California State Banking Department. This arrangement was worked out with the state under the provisions of the International Banking Act of 1978 which, at the Federal level, gave the Federal Reserve System supervisory responsibilities for monitoring the consolidated operations of foreign banks in the United States, while primary supervisory responsibilities for each branch or agency remained with its chartering authority. Under this arrangement, our Reserve Bank

shared examination responsibilities with the California State Banking Department.

The oversight efforts of this Reserve Bank intensified after notification of the BCCI indictments in October of 1988 in Tampa, Florida. Our examiners participated in special examinations that were conducted in conjunction with investigations of BCCI's money laundering activities. Special examinations were conducted at both the Los Angeles and San Francisco agencies of BCCI beginning on October 11, 1988. These examinations focused on a review of the agencies' policies and procedures to ensure compliance with the Bank Secrecy Act. Currency transactions that occurred within the previous year were reviewed for compliance with currency reporting requirements.

No evidence warranting the filing of a criminal referral was discovered as a result of the special examinations of BCCI's Los Angeles and San Francisco agencies in 1988. However, examiners cited BCCI for asset quality problems and lack of adequate credit documentation, internal control deficiencies, errors in regulatory reporting, and inadequate record keeping procedures. BCCI's management was criticized for lax supervision. Violations of both state and federal laws and regulations were noted; however, they were technical in nature and related principally to deposit-taking activities.

As a result of these findings, our Reserve Bank participated actively in drafting a Memorandum of Understanding which was issued to BCCI by the California State Banking Department on



February 14, 1989. Our Reserve Bank also participated in drafting a Cease and Desist Order, which addressed these and other deficiencies in BCCI found by other Reserve Banks, which was issued to BCCI by the Federal Reserve Board on June 12, 1989. The Memorandum of Understanding and the Cease and Desist Order required that BCCI improve asset quality and credit procedures, correct internal control deficiencies, and develop procedures to ensure compliance with all state and federal laws and regulations, including the Bank Secrecy Act.

Adverse publicity surrounding the filing of the indictments against BCCI caused a moderate shrinkage in assets and liabilities at both the San Francisco and Los Angeles agencies, as certain customers elected to curtail their business relationship with BCCI. Also as a result of these indictments, the California State Banking Department required both agencies to maintain a more restrictive ratio of assets to liabilities and to require a higher than normal level of assets pledged to the State of California for faithful performance. The result of these more restrictive requirements was to increase the costs of operating these offices.

In light of the above, BCCI management closed the San Francisco agency on December 1, 1990, and transferred the assets to the Los Angeles agency. Also in December 1990, BCCI management transferred the assets of the Miami office to Los Angeles when the Miami agency was closed by the State of Florida.

In both cases, the assets that were transferred were principally loans to small businesses and trade related financing.

In terms of asset size, the Los Angeles office reached its zenith at yearend 1990, after the transfer of assets was complete. On December 31, 1990, the Los Angeles agency reported total loans of \$142.9 million and total assets of \$190.4 million.

On February 19, 1991, in conjunction with the Federal Reserve Board staff's coordinated supervisory efforts, we conducted an examination of the Los Angeles agency. In addition to the standard procedures conducted in a full scope examination, particular attention was devoted to testing compliance with state and federal laws and regulations, including the Bank Secrecy Act. Examiners also reviewed the loans transferred from the Miami and San Francisco agencies in December 1990. As with other recent examinations, the results of this examination disclosed weaknesses in asset quality, internal controls, and management supervision.

On July 5, 1991, the State of California closed the Los Angeles agency in conjunction with the coordinated closure of BCCI's offices worldwide. On that date the state assumed responsibility for the disposition of the assets of the agency. At the time of its closure, all funding of the agency was from either its head office or BCCI affiliates. Accordingly, no U.S. depositors or institutions are likely to suffer depository losses from the closure of the California office.

Our Reserve Bank has maintained a continuous presence at the Los Angeles office since the start of the February 1991 examination. Our examiners are still on-site and are reviewing the agency's records. We are continuing to cooperate with the investigations now underway. Relevant information is being shared with appropriate federal and state judicial authorities, other regulators, and Congress.

#### Independence Bank

Independence Bank is a state-chartered nonmember bank and is not owned by a bank holding company. Accordingly, the FDIC and the California State Banking Department are the bank's primary regulators and supervisors. Our relationship has been limited essentially to an application that was made in 1986 to form a bank holding company. We have not examined Independence Bank, or participated in examinations of the bank by the California State Banking Department or the FDIC. As a nonmember bank, its acquisition by Gaith Pharaon in November of 1985 was reviewed by the FDIC and the California State Banking Department, not the Federal Reserve.

#### Bank Holding Company Application

The Federal Reserve Bank did, however, have discussions with management of Independence Bank about the possibility of forming a bank holding company, since bank holding company formations require Federal Reserve approval.

On January 8, 1986, we received a draft application to form a multi-tiered holding company structure over Independence Bank.

This application raised significant concerns related to the proposed bank holding company's high debt level and low consolidated capital ratios.

The draft application reflected proposed debt-to-equity and consolidated primary capital ratios that did not meet Federal Reserve System guidelines. The Applicant was informed that additional equity would be needed if the proposed holding company was to maintain an adequate tangible primary capital ratio.

On August 6, 1986, the Federal Reserve Bank received the final application to form a multi-tiered holding company that would own Independence Bank. In a subsequent exchange of correspondence, we requested certain commitments from the Applicant.

The Applicant was requested to commit to achieve and maintain minimum capital ratios meeting Federal Reserve System guidelines at both the parent company and Independence Bank. It also was requested to commit that Independence Bank, if acquired by the Applicant, would not engage in non-banking activities prohibited to bank holding companies and national banks by federal law but permitted to state-chartered banks by California law, such as real estate investment and development. The Applicant indicated to Reserve Bank staff that it did not want to make this commitment since it limited the powers and rights of Independence Bank as a state chartered bank.

Reserve Bank staff actions, namely requests for these commitments and discussions with the Applicant of the financial

issues raised by its proposal, apparently discouraged the Applicant from proceeding with its proposal to form a holding company over Independence Bank. The Applicant, following these discussions and requests for commitments, never submitted the information and the commitments necessary to finalize the application for acceptance, processing and action by the Federal Reserve System. The Reserve Bank returned the application to the Applicant on December 5, 1986, as a result of its failure to provide the various required commitments.

Because the Applicant failed to proceed with the application, it never reached the stage at which the Federal Reserve System would have conducted background investigations of principals of the Applicant and formed conclusions concerning management of the Applicant and Independence Bank. The Reserve Bank ceased having any direct supervisory or regulatory role with Independence Bank following the return of the application.

#### Summary and Conclusion

In summary, our efforts to determine the ownership of Independence Bank were limited, as we had no direct supervisory or regulatory role with the bank other than its application to form a bank holding company. The application never reached the stage at which the Federal Reserve System would have investigated and formed conclusions about the management and ownership structure of Independence Bank.

The Federal Reserve Bank of San Francisco's supervision and regulation of BCCI was concentrated on our on-site examination program adopted in cooperation with the California State Banking Department, our role in the drafting of enforcement actions issued against BCCI, our intensified oversight efforts in light of money laundering allegations in 1988, and our continuous on-site presence at the Los Angeles agency since February of 1991.

### **Federal Reserve Failure to Join College of Supervisors**

The following are excerpts from Price Waterhouse Audit Reports and other reports on BCCI's financial condition. These reports note that CCAH-First American Bank shares were pledged as collateral for huge BCCI loans to a small number of BCCI shareholders. The loans were nonperforming, meaning that BCCI could potentially sell First American to cover the losses on the loans. In other words, they could feasibly control First American.

We now know that the loans were nonperforming because the borrowers were the nominees that enabled BCCI to buy First American in the early 1980's.

\*\*\* If the Federal Reserve would have joined the College of Supervisors that was formed in 1988 to oversee BCCI's international operations, it would had access to the Price Waterhouse Reports.

The Price Waterhouse reports would have shown the Federal Reserve as far back as 1988 that BCCI loans were used to purchase First American and that BCCI "effectively owned First American" because the stock of CCAH/First American was the collateral for the nonperforming loans.

### **Price Waterhouse 1988 Audit Report**

- "Price Waterhouse thinks that the \$900 million loans to shareholders of BCCI should be disclosed in the annual report in the form of a note in the accounts. This refers especially to the loans made for the acquisition of shares of CCAH, National Bank of Georgia, and Independence Bank."

### **Price Waterhouse May 27, 1988**

- "The Group has provided advances totalling \$453 million to a group of customers secured on shares of CCAH. Approximately 27% of the shares in CCAH are pledged to BCCI as security for the above loans. The principal shareholders of CCAH are also shareholders of BCCI."
- "The potential for development of a close working relationship between CCAH and BCCI remains unclear. At present any direct involvement in CCAH by BCC would be precluded by regulatory constraints."

### **Price Waterhouse Evaluation of BCCI International Loans - Summary of Interim Credit Review September 30, 1988**

- "Certain borrowers have pledged a number of their shares under blank transfer deeds which may be applied at the bank's discretion against other CCAH borrowings."
- "BCCI have lent to a group of Arab based investors in CCAH and have taken shares in CCAH as security. The majority of the investors are also shareholders of BCCI, and it is possible that the two banks will merge under common ownership in the

future, subject to approval of the Federal Reserve."

- "The unsecured loans which were advanced to Clark Clifford and Robert Altman (who are Chairman and Director of First American Bankshares) were prepaid during 1988. They have sold a portion of their shares in CCAH to existing CCAH shareholders."

**Price Waterhouse - June 20, 1989**

- "The Group has provided advances totalling \$650 million to a group of customers that are secured on approximately 37% of the shares of CCAH. Approximately 37% of the shares in CCAH are pledged to BCCI as security for the above loans. The principal shareholders of CCAH are also shareholders of BCCI."

**Price Waterhouse April 3, 1990 to BCCI Holdings Board of Directors**

- "Lending to Kamal Adham, Faisal Al Fulaij, Sayed Jawhary, AR Khalil, and HE Ali M. Shorafa is principally secured on shares in CCAH ..."

**Quotes from 1990 Task Force set up by BCCI to Review and Report on International Loans and Transactions**

- "The entire series of loans/transactions identified by PW as "matters of concern" fall into three broad categories. (One of which is) (1) loans/transactions relating to CCAH shareholders and granted to them either by BCCI or ICIC."
- "The Task Force concludes that there is little doubt from the sparse records available and inadequate explanations given by the Accounts Executives/Officers that there must be some "interlocking arrangements between the shareholders of both BCCI Holdings (Lux) SA and CCAH whereby in several cases, "nominee" routes may have been taken to front each others investments in these two banking groups with corresponding loans being drawn from BCCI & ICIC to fund such "interim" holdings."
- "The Task Force has been informed that negotiations are at an advanced stage in the United Arab Emirates (UAE) with certain major existing shareholders of BCCI Group - individuals and institutional, whereby they would acquire substantial amounts of additional shares of BCCI Group, and shortly thereafter shares of CCAH - at previously transactional price of \$40 per share and a carrying cost respectively. This would unwind the outstanding "interlocking" arrangements and greatly reduce the exposure of the bank to such shareholder loans."
- "The Task Force also recommends that in the future there should be no interlocking or nominee arrangements for shareholders of BCCI and CCAH, if such exists at the moment."
- "A significant amount of loans have been given to shareholders of CCAH against security of CCAH shares. These very special need in their handling and special documentation requirements."



Since the parties are very high net worth (or even Royal family members) required documentation has not been easy to obtain."

#### **Price Waterhouse Findings in 1989 Audit of BCCI**

- "Transactions were also found which related to the shareholders of the BCC Group and the shareholders of CCAH which were either not properly authenticated by the client and did not have sufficient and/or complete explanations as to their underlying nature. Certain year-end confirmations were also missing or even rejected (2 cases)."
- "BCCI Group has provided loan facilities to some shareholders of CCAH secured on their shares since 1984. By the end of 1989, BCCI had provided total loan facilities of \$850.2 million to 10 borrowers against 119,325 shares which make up 41.28% of the shares of CCAH."
- "The Task Force is aware however that Management is currently involved in negotiations with certain high net-worth individuals ... who already hold substantial shares of BCCI Holdings and CCAH, to acquire additional quantity of these shares which would make them major shareholders of the BCC Group and CCAH Group."

#### **Price Waterhouse Evaluation of BCCI International Loans**

- CCAH shares are pledged as security against many BCCI borrowings."
- "Shares of Independence Bank are also pledged as security against certain BCCI loans to Dr. Ghaith Pharaon."
- "Although BCCI's security interest in the CCAH shares does not represent a controlling interest, the shareholders could be expected to act in concert."
- "Interesting 1988 events impacting CCAH are summarized below: (1) During June 1988 CCAH issued a \$20 million debenture to BCCI. As BCCI considers this to be an investment it was not subject to credit review or security collateral requirements."
- "Two shareholders, Clifford & Altman sold their BCCI shares in 1988 to another existing CCAH shareholder at a sales price of \$6,800 a share. BCCI officials have not yet provided PW with the names of the buyers or the sources of their funds to purchase the funds. Together they owned less than 7.5% of total CCAH shares. Nothing specific prompted the sale of the shares. Clifford & Altman continue as directors of the company. Given the related party relationship of this transaction, we do not consider the \$6,800 price indicative of the market value of the shares."

#### **Briefing Note for Independent Task Force March 14, 1990**

- "BCCI has provided loan facilities to shareholders of CCAH secured on their shares since 1984."
- "BCCI act as advisors to the shareholders of CCAH and are currently providing advice to them on liquidating part or all

- of their investment."
- In the past bank officials have represented that they hold all the CCAH shares and not simply those pledged, although this year this has been denied."
  - "We understand that an annual return if CCAH shareholders has to be made to the Federal Reserve. In the past management have represented that whilst the original shareholders group was registered with the Fed, subsequent changes have not all been reported as the represent changes of internal arrangements, and BCCI did not wish to cause difficulties in connection with the forthcoming sale."

**Price Waterhouse November 17, 1989 Letter to Board of Directors of BCCI Holdings on the Interim Report on Results and Operations - Nine Months ending September 30, 1990**

- "Major Loans - CCAH related lending may be analyzed as follows:  
The Group (BCC) has provided advances to a group of customers which are secured on approximately 39% of the shares of CCAH. The principal shareholders of CCAH are also shareholders of BCCI."
- "On July 18, 1989, CCAH had a rights issue and the Group advanced \$52 million to a share subscription account. The allocation of this loan between CCAH shareholders has yet to be established."
- "We understand that BCC management are presently advising the shareholders in connection with the sale of the shares of CCAH."
- "At September 30, 1989 the bank held approximately 106,400 CCAH shares as security. A shortfall on the sale of the securities shares could be of the order of \$140 million which may not be fully recoverable from shareholders."

**Price Waterhouse April 25, 1990 letter to Abu Dhabi Finance Department**

- "The loans to CCAH and loans secured on CCAH shares have increased to \$870 million at December 31, 1989 compared with \$702 million the previous year. The increase arises from the roll up of interest, which has not been serviced, and additional unsupported drawdowns to customer accounts."

**Price Waterhouse October 3, 1990 Letter to the BCCI Holdings**

- "On the basis of our discussion we now believe that the previous management may have colluded with some of its major customers to misstate or disguise the underlying purpose of significant transactions."
- "Loans secured on CCAH shares are shown to have increased from \$870 million to \$1,332 million during the eight months to August 31, 1990."

"The concerns about the exposure to CCAH reported by us previously are now even greater."

"We now estimate that the shortfall between the loan amounts outstanding and the value of the underlying security (the CCAH Shares) is of the order of \$300 million."

**BANK OF ENGLAND**  
LONDON EC2R 8AH

THE DEPUTY GOVERNOR

1991

4 September 1991

PRIVATE AND CONFIDENTIAL

The Honourable Henry B Gonzalez  
Chairman  
Committee on Banking, Finance and  
Urban Affairs  
US House of Representatives  
2129 Rayburn House Office Building  
Washington DC 20515  
USA

*Dear Mr Gonzalez,*

I am writing in reply to your letter of 27 August addressed to Mr Quinn, who is currently abroad. I am pleased to supply the following answers to the questions raised in your letter. For convenience, I have used the same numbering as in your letter.

1 Please provide a detailed summary of any discussions by the College of Supervisors concerning Bank of Credit and Commerce International (BCCI) entities in the United States. Include any discussion of BCCI ownership, control or other relationships with Credit and Commerce American Holdings (CCAH), First American Bankshares, or with any subsidiaries of CCAH or First American Bankshares.

The College of Supervisors in 1988 originally comprised representatives from the Institut Monetaire Luxembourgeois (IML), the Bank of England, Banco d'Espana and the Swiss Federal Banking Commission. The Hong Kong Banking Commission and the Cayman Islands Inspectorate joined in 1989, and the United Arab Emirates central bank and the Banque de France joined in 1990 and 1991 respectively. From its inception the College discussed on a number of occasions the loans extended by BCCI to certain BCCI

shareholders against collateral in the form of shares in CCAH. These discussions were held in the context of concern over the financial soundness of BCCI, particularly in relation to the size of certain of BCCI's exposures to some customers, the fact that many of these loans were not being serviced, and the circumstances in which BCCI might reduce these exposures.

At no point did the College discuss the possibility of BCCI being the effective controller of CCAH, or any of its subsidiaries, within the meaning of US law and regulation.

2 Please provide a detailed summary of any discussions among the College of Supervisors related to the Federal Reserve's role in regulating and supervising BCCI.

Discussions among the College of Supervisors relating to the Federal Reserve's role in regulating and supervising BCCI took place in relation to indictments issued by the US District Court of Florida in late 1988 and to subsequent developments (the Tampa affair). At that time members of the College of Supervisors were concerned with the implications of the Tampa affair in relation to their own supervisory responsibilities.

In November 1989, College members discussed with BCCI management the extent to which their plans with regard to the security on the CCAH loans had been discussed with the American authorities.

In December 1990, College members were informed of the details of a financial package prepared by the shareholders to remedy the then identified potential losses, including arrangements to deal with the problems surrounding the CCAH loans. The co-chairmen of the College (Bank of England and IML) discussed with BCCI at this time the possibility that the US authorities could decide that the CCAH transactions had been in breach of US law, and the financial implications of this for BCCI.

In April 1991, the College noted the US investigations into control of CCAH, and the Cease and Desist order agreed between BCCI and the Federal Reserve Board regarding its dealings with First American Bank.

3 Please provide the details of any communication between the College of Supervisors, or any of its members, and the Federal Reserve Board, any Federal Reserve District Bank, the United States Department of the Treasury, or any other agency or entity of the United States Government.

We are not aware of any such communications with the College of Supervisors as a body. The Bank of England is unable to supply details of any bilateral communications between US Government agencies and other members of the College, since we are not in a position to know about any such contacts.

Furthermore, there have been no communications between the Bank of England and the relevant agencies that would be covered by documents assessed as categories 1 and 2 in your letter to Chairman Greenspan of 8 August. Nevertheless, as you would expect, there have been frequent conversations between the Bank of England and the Federal Reserve Board on a range of supervisory subjects: these included matters relating to BCCI, specifically, in recent years, the Tampa affair; CCAH (particularly after the Bank of England became aware of the Federal Reserve Board's interest in the spring of 1990); BCCI's financial condition, especially during 1990 and 1991; and plans for a reconstruction, during late 1990 and 1991.

It is, of course, a matter of public record that the US and the UK law enforcement agencies co-operated over the investigation of BCCI's money-laundering activity.

4 a) Please indicate whether the Federal Reserve Board, the Department of the Treasury, or any other agency or entity of the United States Government was asked formally or informally to participate in the College of Supervisors or any meeting of the College of Supervisors.

Officials from the Federal Reserve Board and the Federal Reserve Bank of New York were invited to attend, as observers, a meeting of the College of Supervisors on 2 July 1991. Otherwise, the answer to this question is no: the known activities of BCCI in the USA were small in relation to the Group as a whole.

4 b) Did the Federal Reserve or any other United States regulatory body ask to join the College of Supervisors?

No.

4 c) Was a representative of the Federal Reserve or of any agency or entity of the United States Government present at any meeting of the College of Supervisors where the illegal or suspicious activities of BCCI, CCAH, CCAI or ICIC were discussed? Please list the date(s).

No, except for the meeting of the College of Supervisors on 2 July.

4 d) Was a representative of the Federal Reserve or of any agency or entity of the United State Government present at any meeting of the College of Supervisors when the Price Waterhouse reports were discussed? List the date(s).

No, except for the meeting of the College of Supervisors on 2 July.

5 a) Please describe any communications between the Bank of England and the Federal Reserve Board during the years 1988, 1989, 1990 and 1991 regarding BCCI, CCAH, CCAI or ICIC?

Such communications do not fall within category 1 and 2 documents; but the information given in response to question 3 may be of help to you.

5 b) Did the Bank of England advise the Federal Reserve Board of suspicions regarding illegal or irregular activities by BCCI, CCAH, CCAI or ICIC?

The same comments as in 5 a) apply here also; but it might be helpful to add that, particularly during 1991, the Bank of England has been in regular contact with the Federal Reserve on a range of issues relating to BCCI; these have included matters relevant to the Federal Reserve's investigations into CCAH and ICIC.

6 When did the Federal Reserve first explore, with the Bank of England or the College of Supervisors, claims that BCCI owned First American?

As far as the Bank of England is aware, the Federal Reserve Board did not explore with the College of Supervisors claims that BCCI owned First American. The Bank of England first became aware of the Federal Reserve's interest in this matter in the spring of 1990. As noted in the answer to question 3, the Bank of England is not in a position to provide details of any bilateral communications between the Federal Reserve Board and other members of the College.

7 When did the Bank of England advise the Federal Reserve Board of the findings of the Price Waterhouse audits during 1990? 1991? List date(s).

The Bank of England was aware in December 1990 that the Federal Reserve Board had been given access to Price Waterhouse's report to the College of 3 October. Subsequently, there were discussions which updated the Federal Reserve Board on the financial position of BCCI and on the plans for a reconstruction. In early June 1991, the Bank of England provided the Federal Reserve Board with a set of Price Waterhouse reports prepared for the College. The Price Waterhouse report under Section 41 of the Banking Act 1987 was discussed at the College meeting on 2 July 1991, which was attended by officials from the Federal Reserve Board and the Federal Reserve Bank of New York.

The Bank of England is offering these responses to the questions posed by the Committee on Banking, Finance and Urban Affairs as an act of co-operation with the Committee, and in the light of the special circumstances created by the Committee's subpoena served on the Board of Governors of the Federal Reserve. The Bank of



England's responses are wholly voluntary in nature, and the Bank's willingness to answer this enquiry should in no way be regarded as establishing a precedent for the future affecting either the Bank of England or Her Majesty's Government.

Yours sincerely,  
E. A. V. Gearing

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**COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**  
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(202) 225-4247

November 13, 1990

Honorable Alan Greenspan  
Chairman  
Board of Governors of  
Federal Reserve System  
20th & C Street, N.W.  
Washington, D.C. 20551

Dear Chairman Greenspan:

President Bush recently ordered an increase of 200,000 U.S. troops in the Persian Gulf area, raising the total U.S. force in the region to about 430,000. The President stated that this massive new deployment would ensure that an "offensive military option" is available. Press reports indicate that part of the reason for this change in posture is that economic sanctions against Iraq, while effective, will take many months, possibly more than a year, before they severely hamper the operation of the Iraqi economy.

A Washington Post article on November 9, 1990, entitled, "Iraq's Pre-Invasion Scramble for Funds Has Cushioned Impact of Sanctions," asserts that part of the reason economic sanctions have not been completely effective is the size of Iraq's financial war chest. This article claims that with the help of financial institutions Iraq was able to enlarge its war chest by between \$100-\$400 million just days prior to its invasion of Kuwait. The House Banking Committee would like to know if financial institutions operating in the U.S. played a role in augmenting the Iraqi financial war chest.

Specifically, the Committee asks your to address the following questions.

- 1) Regarding Iraq and Jordan, please provide,
  - a) a list of banks operating in the U.S. that maintain accounts for the Central Banks of Iraq, Jordan, Egypt, Bahrain, and the United Arab Emirates.

- b) the dollar balance in these accounts on May 1, 1990, June 1, 1990, July 1, 1990, August 1, 1990, August 15, 1990, September 1, 1990 and November 15, 1990.
- 2) Does the Federal Reserve maintain accounts with these Central Banks? What is the nature of these accounts (i.e., gold holdings? deposit accounts? clearing accounts? etc.) What were the dollar balances of such accounts on May 1, 1990, June 1, 1990, July 1, 1990, August 1, 1990, August 15, 1990, September 1, 1990 and November 15, 1990.
- 3) Regarding financial institutions operating in the U.S., please provide,
  - a) a list of banks that transferred money to the Central Bank of Jordan or the Central Bank of Iraq prior to the Iraqi invasion of Kuwait. Please include the date and dollar amount of such transfers.
- 4) Please provide a list of financial institutions operating in the U.S. that maintained a correspondent banking relationship with Rafidain Bank of Baghdad, the largest commercial bank in Iraq.
- 5) Please provide a list of U.S. financial institutions that maintain offices in the Middle East, the nature of such operations, and the asset holdings of these entities.

Due to the urgent nature of this subject matter, I would appreciate a response by November 30, 1990.

Thank you for your time and cooperation.

Sincerely,  
  
 Henry B. Gonzales  
 Chairman

HBG:dk

Regarding the foregoing questions, please be sure to review transactions at the following institutions which may have operations in the United States:

**Bahrain**

Arab Banking Corp., Manama  
Gulf International Bank, Manama  
Bahrain Middle East Bank, Manama

**Egypt**

National Bank of Egypt  
Arab African International Bank, Cairo

**Iraq**

Rafidain Bank, Baghdad

**Jordan**

Arab Bank, Ltd., Amman  
Petra Bank, Amman

**Qatar**

Doha Bank Ltd.

**Saudi Arabia**

National Commercial Bank, Jeddah  
Riyad Bank, Ltd., Jeddah  
Saudi American Bank, Riyadh  
Saudi International Bank

**United Arab Emirates**

National Bank of Dubai Ltd., Dubai  
Bank of Oman, Ltd., Dubai  
Bank of Oman Overseas (USA), New York  
Middle East Bank, Dubai  
National Bank of Abu Dhabi  
Abu Dhabi International Bank Inc.

**UBAF Arab American Bank**



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

ALAN GREENSPAN  
CHAIRMAN

November 30, 1990

The Honorable Henry B. Gonzalez  
Chairman  
Committee on Banking, Finance,  
and Urban Affairs  
House of Representatives  
Washington, DC 20515

Dear Mr. Chairman:

I am responding to your letter of November 13 in which you requested that the Federal Reserve provide certain information concerning the activities of U.S. financial institutions involving Iraq and other Middle East countries.

I understand that your request for information arose in part from an article in the Washington Post that stated that the Central Bank of Iraq made transfers from its accounts to the Central Bank of Jordan two days before the invasion of Kuwait. In order to be responsive to your request, Federal Reserve staff reviewed activity in the accounts of the central banks of Iraq and Jordan at the Federal Reserve Bank of New York. The review indicated that the Iraqi and Jordanian accounts were at a modest level and did not show any unusual activity during the days prior to Iraq's invasion of Kuwait. The review found no evidence that Iraq transferred funds to the Central Bank of Jordan. I am providing you with this information on a strictly confidential basis because the Federal Reserve Bank of New York's agreement with central banks provides that this type of account information will be kept strictly confidential.

Of course, the Federal Reserve's review is not conclusive with respect to transfers involving other institutions. The Washington Post article refers to requests to banks in the Middle East and Europe; banks in the United States are not mentioned. Moreover, the aggregate data we have on claims on Iraq by U.S.-chartered banks indicate that U.S. banks have not been very active in dealing with Iraq in recent years.

I hope the enclosed information and our evaluation of the data available address your concerns. If not, please let me know.

Sincerely,

Enclosure

Materials on Iraqi Financial Operations

1. Regarding Iraq and Jordan, please provide,
  - a) a list of banks operating in the U.S. that maintain accounts for the Central Banks of Iraq, Jordan, Egypt, Bahrain, and the United Arab Emirates.
  - b) the dollar balance in these accounts on May 1, 1990, June 1, 1990, July 1, 1990, August 1, 1990, August 15, 1990, September 1, 1990 and November 15, 1990.

The Rand McNally Bankers Directory and Polk's Bank

Directory list Bank of New York, Chase Manhattan Bank, and Citibank as "correspondents" of the Central Bank of Iraq and Bank of New York and Manufacturers Hanover Trust as correspondents of the Central Bank of Jordan; the Federal Reserve Bank of New York also is listed for both institutions. For the Central Bank of Egypt, these directories list as correspondents Bank of America International (NY), Bankers Trust, Chase Manhattan Bank, Manufacturers Hanover Trust, and Morgan Guaranty Trust. The directories do not list correspondents for the Monetary Authority of Bahrain or the Central Bank of the United Arab Emirates.

Some additional information regarding accounts at U.S. commercial banks of the five official institutions named above may be gleaned from the records of the Federal Reserve Bank of New York. However, as described more fully in the response to question #2, the confidentiality of these records is governed by written agreements between the Federal Reserve Bank and its correspondents. The Federal Reserve does not collect information on activity in individual accounts, including accounts of central banks, at commercial banks operating in the United States.

**Materials on Iraqi Financial Operations**

-2-

The U.S. Treasury collects data from U.S. banking organizations as of the end of each month on outstanding claims on and liabilities to individual foreign countries; these data cover each organization's own liabilities to, as well as assets held in custody for, foreign official institutions as a group, which includes the central bank. These are confidential data, and a request for the release of these data would have to be made to the Treasury.

## Materials on Iraqi Financial Operations

-3-

2. Does the Federal Reserve maintain accounts with these Central Banks? What is the nature of these accounts (i.e., gold holdings? deposit accounts? clearing accounts? etc.) What were the dollar balances of such accounts on May 1, 1990, June 1, 1990, July 1, 1990, August 1, 1990, August 15, 1990, September 1, 1990 and November 15, 1990.

The institutions referred to in question #1 maintain deposit and custodial accounts at the Federal Reserve Bank of New York. These accounts are used for investments in U.S. Government obligations and certain other financial assets.

Under the terms and conditions of the agreement governing each account, the Federal Reserve Bank of New York is obligated to maintain the confidentiality of account information. This obligation applies to all correspondent accounts that the Federal Reserve Bank of New York holds on behalf of more than 170 foreign central banks and monetary authorities. The Federal Reserve believes that this obligation should be respected. For our part, we expect foreign central banks that hold assets for U.S. monetary authorities to maintain strict confidentiality with respect to the size and nature of those holdings. Moreover, the Federal Reserve would be concerned if the Federal Reserve Bank of New York were to violate the terms and conditions of its correspondent relationships; such an action could encourage foreign monetary authorities to shift their dollar holdings, most likely to foreign banks outside the United States. We believe that this would not be in the best interest of the United States.

For these reasons, the Federal Reserve is extremely reluctant to provide the detailed information requested with



**Materials on Iraqi Financial Operations**

**-4-**

**respect to the accounts at Federal Reserve Banks of individual  
foreign central banks.**

## Materials on Iraqi Financial Operations

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3. Regarding financial institutions operating in the U.S., please provide,
- a) a list of banks that transferred money to the Central Bank of Jordan or the Central Bank of Iraq prior to the Iraqi invasion of Kuwait. Please include the date and dollar amount of such transfers.

While the Central Bank of Jordan and the Central Bank of Iraq have accounts in commercial banks in the United States, the Federal Reserve has no knowledge of transactions in such accounts other than in connection with the central banks' accounts at the Federal Reserve Bank of New York.

In theory, it might be possible to obtain some information about the traffic for the accounts of these central banks by an examination of the records of daily electronic payments systems. However, as a practical matter it is unlikely that much useful information could be obtained from these sources. The only way to obtain any information is through a manual search of approximately 250,000 Fedwire transactions for each day and a search through CHIPS (operated by the New York Clearing House), which has approximately 150,000 transactions a day. This would be an extraordinarily time consuming and laborious process that could take months, and would identify only transactions where the names of the holders of the accounts were included in the transfer message; this information is not required for a wire transfer. Thus, it would be extremely burdensome to seek to obtain information on individual transactions; even if some transactions could be identified, that information would not indicate the ultimate source or disposition

**Materials on Iraqi Financial Operations**

-6-

of the funds. Moreover, before any search were undertaken, possible legal impediments in transmitting specific information about bank accounts obtained from a search of transactions over Fedwire or through CHIPS would have to be clarified.

## Materials on Iraqi Financial Operations

-7-

4. Please provide a list of financial institutions operating in the U.S. that maintained a correspondent banking relationship with Rafidain Bank of Baghdad, the largest commercial bank in Iraq.

The Rand McNally Bankers Directory and Polk's Bank Directory list as "correspondents" of Rafidain Bank of Baghdad: Bank of America International (NY), Chase Manhattan Bank, and Bank of New York. The Federal Reserve does not collect information on the correspondents of individual commercial banks.

Information on aggregate bank claims on Iraq from the Country Exposure Lending Survey collected by the Federal Financial Institutions Examination Council (FFIEC) indicates that only a small number of U.S.-chartered banking organizations have claims on Iraq. The most recent survey of 164 consolidated U.S.-chartered banking organizations for June 1990 indicates a very low level of claims on Iraq. In June total claims were \$614 million, including \$475 million in claims on banks, \$106 million in claims on public borrowers, and \$33 million in claims on private, nonbank borrowers. After adjustments for guarantees by non-Iraqi entities, the total was only \$112 million.

## Materials on Iraqi Financial Operations

-8-

5. Please provide a list of U.S. financial institutions that maintain offices in the Middle East, the nature of such operations, and the asset holdings of these entities.

The Federal Financial Institutions Examination Council, under whose authority data on operations of foreign branches are collected, requires that U.S. banking organizations be notified before information on an individual branch's operations can be released. If you think this information would be useful, we will start the notification process. However, the banks may raise legal impediments to its release.

We can provide you with some summary information in this area. Seven U.S. banking organizations have branches or subsidiaries operating in Bahrain, Jordan, Oman, Saudi Arabia, Turkey, or the United Arab Emirates. The nature of these operations is listed below.

As of the end of 1989, the combined assets of these offices were \$10.5 billion. The major portion (\$7.1 billion) consisted of the assets of Citibank's 40-percent interest in an indigenous commercial bank -- Saudi American Bank. Of the remaining amount, more than 75 percent was in the branches of banks operating in Bahrain. Bahrain is an off-shore banking center where branches of U.S. banks collect deposits to fund the banks' worldwide operations. Bahrain's importance as a funding center has been declining over the last few years, and it is expected that total assets of U.S. banks booked in Bahrain are now significantly less than at year-end 1989. The remaining assets booked in local branches of U.S. banks in Jordan, Oman,

## Materials on Iraqi Financial Operations

-9-

Turkey and the United Arab Emirates were very small as of the end of 1989.

Bahrain

Bankers Trust Co.	Branch
Chemical Bank	Branch
Manufacturers Hanover Trust Co.	Branch
Citibank N.A. (one of the	2 Branches
branches is a branch of Citicorp	
Banking Corp, Delaware)	
Chase Manhattan Bank N.A.	Branch
Bank of America N.T. & S.A.	Branch

Jordan

Citibank N.A.	2 Branches
---------------	------------

Oman

Citibank N.A.	Branch
---------------	--------

Saudi Arabia

Citibank N.A.	
Saudi American Bank	(40 percent owned subsidiary)

Turkey

First National Bank of Boston	Branch
Manufacturers Hanover Trust Co.	Branch
Citibank N.A.	3 Branches
Chase Manhattan Bank N.A.	Branch

United Arab Emirates

Citibank N.A.	5 Branches
---------------	------------

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 DOUG BARNARD, JR., GEORGIA  
 CHARLES F. SCHUMER, NEW YORK  
 BARNEY FRANK, MASSACHUSETTS  
 BEN EDWARDS, ALABAMA  
 THOMAS H. CARPER, DELAWARE  
 LESTER EDWARD TORRES, CALIFORNIA  
 GERALD D. ELICIZIA, WISCONSIN  
 PAUL E. KARLOWSKI, PENNSYLVANIA  
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 KWEISI MPUMU, MARYLAND  
 PETER HOAGLAND, NEBRASKA  
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 CHARLES LUTER, OHIO  
 MADAME WATERS, CALIFORNIA  
 LARRY LAPOCCO, IDAHO  
 BILL DITTON, UTAH  
 JIM BACCHUS, FLORIDA  
 JAMES MORAN, JR., VIRGINIA  
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ONE HUNDRED SECOND CONGRESS

2129 RAYBURN HOUSE OFFICE BUILDING  
 WASHINGTON, DC 20515

August 22, 1991

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 SAM JOHNSON, TEXAS  
 BERNARD SANDERS, VERMONT  
 (202) 225-4247

Mr. Robert P. Black  
 President  
 Federal Reserve Bank of Richmond  
 Richmond, Virginia 23219

Dear Mr. Black:

The Committee on Banking, Finance and Urban Affairs will hold a hearing on its investigation of the Bank of Credit and Commerce International (BCCI) on September 13, 1991, at 9:30 a.m., in Room 2128 Rayburn Building. The Committee requests that you testify.

The hearing will focus on the Federal Reserve's supervision and regulation of BCCI. In particular, the Committee will focus on BCCI's secret ownership of U.S. financial institutions. In the written portion of your testimony provide a detailed description of the Federal Reserve Bank of Richmond's supervision and regulation of BCCI, Credit and Commerce American Holdings (CCAH) and financial institutions in the United States related to those entities. Please detail efforts taken by the Federal Reserve Bank of Richmond to determine the ownership of CCAH/First American. In addition, please be prepared to discuss coordination with other U.S. and foreign regulatory bodies.

Banking Committee rules require written testimony to be made available to Members of the Committee at least twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., September 11, 1991. The Committee looks forward to your testimony.

Sincerely,

*Henry B. Gonzalez*  
 Henry B. Gonzalez  
 Chairman

HBG:dk

HENRY B. GONZALEZ, TEXAS, CHAIRMAN

FRANK ANNUNZIO, ILLINOIS  
 STEPHEN L. REAL, NORTH CAROLINA  
 CARROLL HUBBARD, JR., KENTUCKY  
 JOHN J. LAFALCE, NEW YORK  
 MARY ROSE OAKAR, OHIO  
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 ELIZABETH J. PATTERSON, SOUTH CAROLINA  
 JOSEPH P. KENNEDY II, MASSACHUSETTS  
 FLOYD H. PLAKE, NEW YORK  
 EYEDIE MYRNE, MARYLAND  
 PETER HOAGLAND, NEBRASKA  
 RICHARD E. REAL, MASSACHUSETTS  
 CHARLES LUEN, OHIO  
 MAXINE WATERS, CALIFORNIA  
 LARRY LINDCO, IDAHO  
 BILL ORTON, UTAH  
 JIM BACCHUS, FLORIDA  
 JAMES MORAN, JR., VIRGINIA  
 JOHN COX, JR., ILLINOIS  
 TED WEBER, NEW YORK  
 JIM SLATTERY, KANSAS  
 GARY L. ACKERMAN, NEW YORK

**U.S. HOUSE OF REPRESENTATIVES**  
**COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS**

ONE HUNDRED SECOND CONGRESS  
 2129 RAYBURN HOUSE OFFICE BUILDING  
 WASHINGTON, DC 20515

August 22, 1991

CHALMERS F. WYLLIE, OHIO  
 JIM LEACH, IOWA  
 BILL MCCOLLUM, FLORIDA  
 MARCE ROUMENIA, NEW JERSEY  
 DOUG BEREUTER, NEBRASKA  
 THOMAS RIDGE, PENNSYLVANIA  
 TONY ROTH, WISCONSIN  
 ALFRED A. MCCANDLESS, CALIFORNIA  
 RICHARD H. BAKER, LOUISIANA  
 CLIFF STEARNS, FLORIDA  
 PAUL E. GALLMOR, OHIO  
 BILL FAXON, NEW YORK  
 JOHN LAMAR DUNCAN, JR., TENNESSEE  
 TOM CAMPBELL, CALIFORNIA  
 MEL HANCOCK, MISSOURI  
 FRANK RIGGS, CALIFORNIA  
 JIM RUSSELL, IOWA  
 RICHARD E. ARNEY, TEXAS  
 CRAIG THOMAS, WYOMING  
 SAM JOHNSON, TEXAS  
 BERNARD SANDERS, VERMONT

DDJ: 225-4247

Mr. Robert P. Forrestal  
 President  
 Federal Reserve Bank of Atlanta  
 Atlanta, Georgia 30303

Dear Mr. Forrestal:

The Committee on Banking, Finance and Urban Affairs will hold a hearing on its investigation of the Bank of Credit and Commerce International (BCCI) on September 13, 1991, at 9:30 a.m., in Room 2128 Rayburn Building. The Committee requests that you testify.

The hearing will focus on the Federal Reserve's supervision and regulation of BCCI. In particular, the Committee will focus on BCCI's secret ownership of U.S. financial institutions. In the written portion of your testimony provide a detailed description of the Federal Reserve Bank of Atlanta's supervision and regulation of BCCI and financial institutions in the United States related to those entities. Please detail efforts taken by the Federal Reserve Bank of Atlanta to determine the ownership of the National Bank of Georgia and First American Bankshares. In addition, please be prepared to discuss coordination with other U.S. and foreign regulatory bodies.

Banking Committee rules require written testimony to be made available to Members of the Committee at least twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., September 11, 1991. The Committee looks forward to your testimony.

Sincerely,

*Henry B. Gonzalez*  
 Henry B. Gonzalez  
 Chairman

HBG:dk



HENRY B. GONZALEZ, TEXAS, CHAIRMAN

FRANK ANNUNCIO, ILLINOIS  
 STEPHEN L. NEAL, NORTH CAROLINA  
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 CHARLES LUKER, OHIO  
 MAURINE WATERS, CALIFORNIA  
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 BILL DORTCH, UTAH  
 JIM BACCHUS, FLORIDA  
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# U.S. HOUSE OF REPRESENTATIVES

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ONE HUNDRED SECOND CONGRESS  
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August 22, 1991

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 JIM RUSSELL, IOWA  
 RICHARD E. ARNEY, TEXAS  
 CRAIG THOMAS, WYOMING  
 SAM JOHNSON, TEXAS

BERNARD SANDERS, VERMONT  
 (202) 225-4247

Honorable Alan Greenspan  
 Chairman  
 Board of Governors of  
 the Federal Reserve System  
 20th & C Street, N.W.  
 Washington, D.C. 20551

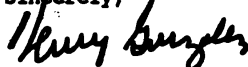
Dear Chairman Greenspan:

The Committee on Banking, Finance and Urban Affairs will hold a hearing on its investigation of the Bank of Credit and Commerce International (BCCI) on September 13, 1991, at 9:30 a.m., in Room 2128 Rayburn Building. The Committee requests that Mr. William Taylor and Mr. Virgil Mattingly be available to testify.

The hearing will focus on the Federal Reserve's supervision and regulation of BCCI. In particular, the Committee will focus on BCCI's secret ownership of U.S. financial institutions. In the written portion of the testimony provide a detailed description of the Federal Reserve's supervision and regulation of BCCI, Credit and Commerce American Holdings (CCAH) and financial institutions in the United States related to those entities. Please detail efforts taken by the Federal Reserve to determine the ownership of CCAH/First American. In addition, please be prepared to discuss coordination with other U.S. and foreign regulatory bodies.

Banking Committee rules require written testimony to be made available to Members of the Committee at least twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of the written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., September 11, 1991. The Committee looks forward to your testimony.

Sincerely,



Henry B. Gonzalez  
 Chairman

HBG:dk

HENRY B. GONZALEZ, TEXAS, CHAIRMAN

FRANK ANNUNZIO, ILLINOIS  
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August 22, 1991

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JIM HUBLE, IOWA  
RICHARD K. ARMSTRONG, TEXAS  
CHAD THOMAS, WYOMING  
SAM JOHNSON, TEXAS

BERNARD SANDERS, VERMONT

(202) 225-4247

Mr. Robert T. Parry  
President  
Federal Reserve Bank of San Francisco  
San Francisco, California 94120

Dear Mr. Parry:

The Committee on Banking, Finance and Urban Affairs will hold a hearing on its investigation of the Bank of Credit and Commerce International (BCCI) on September 13, 1991, at 9:30 a.m., in Room 2128 Rayburn Building. The Committee requests that you testify.

The hearing will focus on the Federal Reserve's supervision and regulation of BCCI. In particular, the Committee will focus on BCCI's secret ownership of U.S. financial institutions. In the written portion of your testimony provide a detailed description of the Federal Reserve Bank of San Francisco's supervision and regulation of BCCI and financial institutions in the United States related to those entities. Please detail efforts taken by the Federal Reserve Bank of San Francisco to determine the ownership of Independence Bank. In addition, please be prepared to discuss coordination with other U.S. and foreign regulatory bodies.

Banking Committee rules require written testimony to be made available to Members of the Committee twenty-four hours in advance of a hearing. Accordingly, please deliver 200 copies of your written testimony to Room 2129 Rayburn House Office Building by 9:30 a.m., September 12, 1991. The Committee looks forward to your testimony. With best wishes.

Sincerely,

*Henry B. Gonzalez*  
Henry B. Gonzalez  
Chairman

HBG:dk

## DOCUMENT HEADER

Document name: BCCI 12/18/90 Document type: WRD  
 Drawer: Electronic Mail Folder: Messages  
 Received from: Thomas McQueeney  
 Last modified on Dec 18, 90 2:48 PM by B1TPMBX  
 Author: Thomas McQueeney Typist: Thomas McQueeney  
 Filed on: Dec 18, 90 2:48 PM Message attached  
 Subject: BCCI

## Summary:

I spoke with Bill Ryback about his meeting last week with Iqbal of BCCI. Bill was very impressed with Iqbal, who offered to open the books of BCCI to us and is anxious to get these matters settled. He showed Bill the Price Waterhouse audit report which reportedly showed that 60 percent of BCCI Holding's shares were pledged to secure loans (\$1.3 billion) to shareholders of BCCI which were never serviced. Bill feels that BCCI has been lying to us for years and he would like to have Clark Clifford and Robert Altman investigated for their role in withholding that vital information from us. Bill said he hasn't spoken as yet to Virgil Mattingly about this but he would like to go to the Board for a divestiture order. Bill has not committed anything to writing on this and refrained from taking a copy of the PW report lest Mr. Moscow of the New York District Attorney's office subpoena such records. Ryback feels that the way things stand now, it is likely that he will be asked to testify before the New York grand jury. Herb Biern is meeting on Thursday of this week with one of PW's general partners for banking matters, a Mr. Macy, to discuss PW's refusal to consent to give us access to their audit report. Ryback will attend that meeting. I left it with Bill that we will get back to him and possibly attend that meeting.

## Comments:

failed to:  
 Bob O'Sullivan

Southwark Towers  
32 London Bridge Street  
London SE1 9SY

Telephone 01 407 9909  
Telex 884637 G  
Telegraph 01-378 0647

*Price Waterhouse*



17 November 1989

The Board of Directors  
BCCI Holdings (Luxembourg) SA  
39 Boulevard Royal  
Luxembourg

Dear Sirs,

INTERIM REPORT ON RESULTS AND OPERATIONS

At your request we have compiled a brief report on the results and operations covering the nine months to 30 September 1989. We understand that this information is required for submission to the Institut Monetaire Luxembourgeois, the Bank of England and the other banking supervisory authorities comprising the College of Supervisors.

This report is based on unaudited information which has been provided to us by management and from our colleagues in other offices who have recently completed interim audit work at major locations. Such work comprised testing of systems and controls and preliminary credit reviews at major locations throughout the Group; further details of the audit scope are set out in Appendix 1 to this report. Our review of the loan portfolio is continuing with a view to reaching agreement on the levels of provisions required at an early stage, although the number of issues to be resolved may cause a delay in the normal reporting timetable.

The contents of this report have been discussed with Group management and their comments incorporated as appropriate. We have also had discussions with the Audit Committee about the matters raised in this report.

The report has been prepared to provide an understanding of the Group's results and operations to those concerned with its consolidated supervision. It should not be released to other parties without our specific permission in writing.

We wish to express our appreciation of the courtesy and co-operation extended to us by management and staff of the Group during the course of our work.

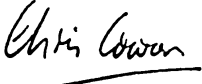
Yours faithfully,

**PRICE WATERHOUSE**

27 April 1990  
Mr A Phillippe  
Page 2

I expect that these matters should be resolved on Monday. Please let me know if you have any comments on the drafts.

Yours sincerely,

A handwritten signature in cursive script, reading "Chris Cowan". The signature is written in dark ink and is positioned above a horizontal line.

CI Cowan

CIC/hh

encs.

cc: Mr J Beverly - Bank of England  
Mr Z Iqbal - BCCI

## SECTION 3: CREDIT

## CCAH

S'million

- 28 The CCAH related lending may be analysed as follows:

Loans to major customers	782
CCAH Share Subscription Account	52
CCAH Debenture	20
	<hr/>
	854

- 29 *Noted*  
The Group has provided advances to a group of customers (including customers (B,C,G,L,N and O)) which are secured on approximately 39% of the shares of CCAH, the holding company of First American Bankshares Inc, a major regional banking group in the Eastern United States with banking licences to operate in six separate states. The principal shareholders of CCAH are also shareholders of BCCI.
- 30 The loans to these customers have increased by \$113 million since 31 December 1988 as a result of interest and charges being applied. Some \$41 million has been repaid during 1989 but this has been offset by new drawdowns of \$42 million.
- 31 On 18 July 1989 CCAH had a rights issue and the Group advanced \$52 million to a share subscription account. The allocation of this loan between CCAH shareholders has yet to be established.
- 32 We understand that BCC management are presently advising the shareholders in connection with the sale of the shares of CCAH and that further developments in this regard may be expected before the end of the year.
- 33 At 30 September 1989 the bank held approximately 106,400 CCAH shares as security (before allocation of the rights issue). These shares had a net asset value per share of \$2,868 based upon the unaudited management accounts at 30 June 1989. This implies that the multiple of net asset values required to cover the existing loans (excluding the rights issue loans) is 2.57 times. We understand that the median multiple of net assets applicable to bank share transactions in the United States since 1981 is in the region of 2.1 times. This implies that a shortfall on the sale of the shares could be of the order of \$140 million which may not be fully recoverable from the shareholders.
- 34 Management are expecting repayments before 31 December 1989 which should reduce this shortfall.

Southwark Towers  
27 London Bridge Street  
London SE1 9SY

Telephone: 01 467 6366  
Telex: 884657 E  
Telecopier: 01 378 0647

## Price Waterhouse



27 April 1990

As from 6 May 1990  
our new Telephone Number  
will be:

**071-939 3000**

Telecopier **071-378 0647**

Mr A Philippe  
Institute Monetaire Luxembourgeois  
63 Avenue de la Liberte  
2983 Luxembourg

Dear Mr Philippe,


BCCI

As requested I enclose 1989 financial statements for the following BCCI entities which we have initialled for the purposes of identification.

BCCI Holdings Luxembourg SA - consolidated financial statements  
BCCI SA - in accordance with IAS together with accounts in compliance with Luxembourg law and a reconciliation between the two  
BCCI (Overseas)

These drafts are to be presented to the board on Monday and we are prepared to sign the audit report as drafted subject only to the following:

- ✓ 1) Completion of subsequent events review, including review of share register and sources of additional capital provided by shareholders.
- ✓ 2) Acknowledgement by the shareholders' representative that our letter of 25 April has been received. A copy of this letter is enclosed for your records.
- 3) Confirmation that the shareholders' loans referred to in our letter are to be repaid.
- ✓ 4) Representations by management and the directors about the basis of preparation of the financial statements.
- 5) Board approval of the draft financial statements. There is a proposal to increase the provisions by a further \$100 million to \$600 million; this needs to be confirmed with the shareholders' representative and has not been reflected in the enclosed drafts.

 CCAH = First American

Loans secured on CCAH shares have increased to \$870 million compared to \$702 million a year ago despite management assurances that the exposure would reduce during 1989. Interest for 1989 has not been serviced and additional unsupported drawdowns were debited to customer accounts during the year.

Goldman Sachs have been retained by CCAH to advise on the realisation of the investment in First American Bank. We have suggested that Goldman Sachs be asked to provide an indication of the likely sales proceeds and this should be used for purposes of valuation of the shares held as security for CCAH loans. In the absence of this valuation we have made our own estimates which indicate that there is likely to be a shortfall of the order of \$200 million which would need to be provided in 1989.

We are informed that the major shareholders are negotiating to take over at book amount the loans to the Rulers of Fujairah and Ajman. If these loans are taken over the potential loss would be reduced to some \$132 million, which will need to be provided in the 1989 financial statements.

In addition, we will require evidence that no loss will fall on the bank in respect of the guarantee of \$175 million provided by the bank to Mashriq Holdings (Ruler of Fujairah) in respect of CCAH shares.



*Price Waterhouse*




3 October 1990

*STRICTLY PRIVATE AND CONFIDENTIAL*

The Chairman of the Audit Committee  
BCCI Holdings (Luxembourg) SA  
39 Boulevard Royal  
Luxembourg

Dear Sir,

 As agreed with Mr Z Iqbal and in accordance with a request from the College of Banking Supervisors we have prepared a brief report on the following matters which we should like to discuss with you when we meet later this week:

- Developments on major loans since our report of 18 April
- Review of results of continuing operations
- Pro-forma financial statements

Our work on the loans involved reviews of the customer balances and enquiries about movements and prospects for recovery. There have been significant transactions which we understand have been authorised by a representative of the controlling shareholders although we have yet to see any documentation to this effect.

The transactions identified arise solely from our review and discussions with Mr Iqbal as we have not carried out any detailed testing since the conclusion of our 1989 audit.

Our comments on the results of continuing operations and financial position are based on a review of the unaudited interim results to 30 June 1990 and the assumptions relating to problem loans and divestment applied in arriving at pro forma financial statements.



3 October 1990  
The Chairman  
Page 2

On the basis of our discussions we now believe that the previous management may have colluded with some of its major customers to misstate or disguise the underlying purpose of significant transactions. Whilst initial enquiries have been made about these accounts by the current management and the controlling shareholders, major uncertainties remain about their ultimate recoverability. These are unlikely to be capable of quantification until such time as a detailed investigation of the accounts concerned is conducted, which in our opinion should be carried out as a matter of urgency.

On the basis of some very broad assumptions we estimate that financial support of the order of \$1.5 billion is required to cover potential losses on these accounts. Until such time as the comments about recoverability can be corroborated this should be regarded as indicative of the likely level of support required rather than a fully supportable estimate.

We have discussed this report with both Mr Iqbal and representatives of the controlling shareholders and following our recommendations we understand that the latter have agreed to take immediate action to:

- finalise arrangements for providing the necessary financial support
- make Board and management appointments
- initiate an investigation into the problem loans

Copies of this report will be provided to the directors, the controlling shareholders and to members of the College of Banking Supervisors for consideration at their meeting on Friday 5 October. It should not be released to other parties without our specific written permission.

Yours faithfully,

WXYZ = CCAH

Loans secured on WXYZ shares are shown to have increased from \$870 million to \$1,332 million during the eight months to 31 August 1990, as a result of the inclusion of loans 'parked' at Bank BH and application of interest. Interest has not been suspended, although service charges and management fees previously charged have not been levied.

The concerns about the exposure to WXYZ reported by us previously are now even greater. We have seen no evidence of progress in the sale of the underlying security although we understand from the controlling shareholders that they are seeking to appoint professional advisers to find a suitable buyer. There have been no significant repayments from the borrowers concerned or improvements in security documentation.

We now estimate that the shortfall between the loan amounts outstanding and the value of the underlying security is of the order of \$300 million using a multiple of 2.1 times net tangible assets. In order to cover the loans the shares would need to be acquired at 2.5 times net book value (including intangibles). Management acknowledge that there is a shortfall which should be provided as it seems unlikely that the recorded shareholders will accept liability for any shortfall and \$270 million has been included in the estimate of provision requirements.



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20551

RECORDS SECTION

FEB 2 1978

411.001

Atlanta; Natl Bk  
of Georgia

FEB 2 1978

Frank Van Court; Esq.  
Vinson & Elkins  
2100 First City National Bank Building  
Houston, Texas 77002

Dear Mr. Van Court:

On January 5, 1978, pursuant to Regulation 11.4(g)(2)(i) of the Comptroller of the Currency (12 C.F.R. § 11.4(g)(2)(i)), you filed with the Comptroller of the Currency, on behalf of Ghaith Pharaon, a copy of Form 11 in connection with Mr. Pharaon's purchase of 121,906 shares of the capital stock of the National Bank of Georgia, Atlanta, Georgia ("NBG"). In Item 3 of Form 11, you state that the total consideration for the purchase of these shares was \$2,439,200, and this amount was borrowed from Bank of Credit and Commerce International, London, England ("BCCI"), "pursuant to a personal credit line of Pharaon with such bank [and] [t]his credit line is unsecured . . . ."

The Board has in the past considered as evidence that a company may be acting through others to control bank shares instances in which a company financed the purchase of bank shares and the bank shares served as collateral for the loan, or there was an agreement on the part of the company not to hold the borrower personally liable on the loan or to indemnify the purchaser/borrower against loss from his investment in bank shares. While none of these situations appears to be identical to the circumstances surrounding Mr. Pharaon's purchase of NBG's shares, it may be regarded as somewhat unusual for an individual to purchase bank shares with funds of the magnitude involved in this case from an unsecured line of credit, and such a transaction could potentially raise questions concerning a control relationship between the lender, the borrower and the acquired bank shares.

We would very much appreciate hearing from you concerning the nature of Mr. Pharaon's investment and the control of these shares should not be attributed to BCCI. We would also be interested

FILE COPY

\*  
in knowing what arrangements are being made to finance Mr. Phareson's purchase of up to 60 per cent of NEB's shares, for a total consideration of approximately \$14,743,540. Of course, we would be pleased to receive any additional information or comment you may deem appropriate in the circumstances.

Very truly yours,

(Signed) Robert E. Mannion

Robert E. Mannion  
Associate General Counsel

bcc: John Shockey (Comptroller of the Currency)  
Paul Homan (Comptroller of the Currency)

Jack Ryan

*REM* *HT*  
REM:SK:gjr  
2/24/78

Exhibit "A" of Form F-11 of Ghaith Pharaon

RECORD IN RECORDS SECT.

JAN 12 1978  
W

## STOCK PURCHASE AGREEMENT

This STOCK PURCHASE AGREEMENT (hereinafter referred to as the "Agreement") is entered into effective as of December 27, 1977, by and among GHAITH R. PHARAON (hereinafter referred to as "Purchaser") and T. BERTRAM LANCE, by and on behalf of himself and those listed on Schedule A (hereinafter referred to as "Seller") with respect to certain shares of the capital stock of the National Bank of Georgia, Atlanta, Georgia (the "Bank");

WHEREAS, Purchaser desires to purchase and Seller desires to sell certain shares of the capital stock of the Bank owned by the Sel. (the "Stock").

NOW, THEREFORE, for and in consideration of the premises and of the mutual agreements, provisions and covenants herein contained, and the mutual benefits to be derived therefrom, the parties hereto covenant and agree as follows:

1. Representations and Warranties of the Seller.

The Seller represents and warrants as follows:

Section 1.01. Title to Shares. Seller represents and warrants to, and agrees with, the Purchaser that Seller and those persons listed on Schedule A will be on each of the respective Closing Dates (the Initial Closing Date and the Second Closing Date as hereinafter defined) the record and beneficial owner of the number of duly authorized, issued, outstanding, fully paid and nonassessable shares of Stock to be sold by Seller hereunder on each Closing Date free and clear of all security interests, claims, liens, encumbrances, pledges, options, charges and assessments, with the full right, power and authority to enter into this Agreement and to sell, assign, trans and deliver the shares of Stock to be sold by the Seller hereunder on such Closing Date and that, upon delivery of and payment for such Stock hereunder, the Purchaser will acquire good and marketable title to the shares of stock to be sold by the Seller.

Section 1.02. Validity of Agreement. Neither the execution and delivery of this Agreement nor the consummation of the transactions herein contemplated will conflict with, result in the breach, constitute a default under or accelerate the performance provided by terms of any law, or any rule or regulation of any governmental agency or authority or any judgment, order or decree of any court or other governmental agency to which the Seller is bound or committed or the

*R. J. M.*

Section 5.03. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same Agreement.

Section 5.04. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if delivered by hand and receipted for by the party to whom said notices, requests, demands and other communications shall have been directed or mailed by registered or certified mail with postage prepaid

(i) if to Purchaser to:

Ghaith R. Pharaon  
c/o Frank Van Court  
2100 First City National Bank Building  
Houston, Texas 77002

(ii) if to Seller to:

T. Bertram Lance  
c/o Robert A. Altman  
815 Connecticut Avenue  
Washington, D. C. 20006

Section 5.05. In the event the Bank declares, or there occurs a stock dividend, stock split, spin-off, or other change in the capitalization of the Bank, the Purchase Price, the Tender Offer Price, and the number of shares of stock covered hereby shall be equitably adjusted to give account thereto.

Section 5.06. This Agreement constitutes the entire agreement between the parties pertaining to the subject matter hereof and supersedes all prior agreements of the parties.

IN WITNESS WHEREOF, each of the parties hereto has caused this Agreement to be duly executed, all as of the day and year first above written.

PURCHASER

  
\_\_\_\_\_  
Ghaith R. Pharaon

SELLER

  
\_\_\_\_\_  
T. Bertram Lance

COMPTROLLER OF THE CURRENCY  
Form F-11

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Statement to be filed pursuant to Regulation 11.4 (g)(2)(i)

Item 1 - Security and Bank

This Statement relates to the capital stock par value \$5.00 ("Stock") of the National Bank of Georgia (the "Bank"), 34 Peachtree Street Northeast, Atlanta, Georgia 30303.

Item 2 - Identity and Background

a) Name and business address:

Ghaith Pharaon  
Saudi Research & Development Corporation  
P.O. Box 1935  
Jeddah, Saudi Arabia

b) Residence address and citizenship:

Ghaith Pharaon  
RUWEIS, Jeddah, Saudi Arabia

Citizen of the Kingdom of Saudi Arabia

c) Present Principal Occupation with address and type of business or occupation:

Pharaon is Chairman of the Board of Saudi Research & Development Corporation, Limited, ("REDEC"), P.O. Box 1935, Jeddah, Saudi Arabia. As Chairman, Pharaon functions as the equivalent of the Chief Executive officer of REDEC. REDEC was established in 1966 by Pharaon. It operates as a holding company with semi-autonomous operating divisions in the following areas: catering, commercial contracting and engineering, electro-mechanical, industrial and investment and maritime shipping.


d) Material Occupations:

Pharaon established REDEC after finishing Harvard Business School in 1965, and has been Chairman of the Board since that time. In addition, he has made several private investments in the United States and throughout the world.



- e) Criminal Proceedings: Pharaon, has not been convicted in criminal proceeding (excluding traffic violations or similar misdemeanors) during the last ten years.

Item 3 - Source and Amount of Funds or Other Consideration



The total consideration for the purchase of the 121,906 shares of Stock of the Bank on January 5, 1978, by Pharaon at \$20.00 per share is \$2,439,200. *avr*  
These funds were borrowed from Bank of Credit and Commerce International of London, England pursuant to a personal credit line of Pharaon with such bank. This credit line is unsecured and is reviewed annually. Funds borrowed pursuant to the line of credit bear interest at rates varying between 1-1/2 to 2 percent over the existing London Interbank Offering ("LIBO") rate. The \$2,439,200 will bear interest at 2% over the LIBO rate. *avr*  
Negotiations are currently underway for permanent financing for the entire transaction, including the proposed tender offer. If 60% of the Bank's Outstanding Stock is acquired, the total consideration would be approximately \$14,743,540.

Item 4 - Purpose of Transaction

The acquisition of the shares of Stock pursuant to the Stock Purchase Agreement between Pharaon and T. Bertram Lance ("Lance") executed on December 27, 1977 (the "Agreement") described in Item 6(a) was the initial transaction in a series of proposed transactions pursuant to which Pharaon, subject to the various conditions, including those set forth in such Agreement, intends to acquire 60% of the outstanding stock of the Bank. If 60% of the stock is acquired it will represent a controlling interest of the Bank. Pharaon presently has no plan or proposal to liquidate the Bank, sell its assets, merge it with another entity or to make any major change in its business or corporate structure. Pharaon intends to seek representation through his designees on the Board of Directors of the Bank. Such designees may from time to time, in their capacity as directors of the Bank, suggest business strategies or plans for the Bank's business and operations.

Item 5 - Interests in Securities of the Bank

Pursuant to the Agreement and on January 5, 1978, Pharaon acquired 121,906 shares of the Stock of the Bank. Such shares equal approximately 9.92% of the total number of shares of the Bank's Stock outstanding. Pursuant to the Agreement and

October 20, 1986

Mr. William Taylor

BCCI

Messrs. Ryback and Martinson

**BACKGROUND**

Customs officials had been investigating improprieties in the Florida offices of BCCI relating to the aiding and abetting of laundering money derived from criminal activities. The investigation culminated in the seizure of books and records of BCCI's Florida offices by federal officers. Indictments against BCCI officials were issued by a grand jury.

The Federal Reserve began an investigation to determine the extent to which the activities in Florida were endemic to BCCI's other U.S. offices. On Tuesday, October 11, system examiners went into the New York, San Francisco, and Los Angeles offices of BCCI. Drug enforcement officers were already present in the Florida offices of BCCI. After the drug enforcement people withdrew from the Florida offices, examiners were also sent to those offices.

In New York and California, examiners checked compliance with the Bank Secrecy Act and other compliance matters. (The Florida offices are in the last stages of a regular examination what included BSA compliance review.) Examiners were also instructed to monitor the effect on liquidity caused by the negative publicity attending the indictments. Contact has been initiated with State regulators and with foreign regulatory officials.

With regard to Bank Secrecy Act compliance, New York examiners found what appears to be a pattern of numerous deposits of less than \$10 thousand each entered into by four or five individuals with the same address in Colombia, sometimes on the same day. Bank Secrecy compliance in general and these accounts in particular are continuing to be reviewed. It might be noted that the New York agency has ground floor premises and a teller kiosk, which is unusual for an agency. There are initial indications that BSA compliance may be inadequate.

The examinations of the California offices have indicated little cash activity and that basically the appropriate forms are usually filed. In San Francisco there was one omission in connection with the cashing of \$50 thousand in travelers checks. There was also one case where funds from an IBF deposit were used to pay a domestic customer in violation of Regulation D.

In Florida the situation is more serious. The State commenced an examination in August and that exam continues. The prior examination was as of December 31, 1986. As a result of

the last examination the Atlanta Reserve Bank filed a criminal referral for possible money laundering violations in May 1987. The practices found by the Reserve Bank were not mentioned in the criminal indictment. In addition, the Reserve Bank recommended a criminal referral in 1985 and found violations of the Financial Records Keeping Act in the 1983 and 1984 examinations. At the December 1986 exam the branch, including management, was rated a three and management was viewed as uncooperative.

The current indictment mostly covers individuals in the Latin American marketing division of BCCI, two of whom were headquartered in Miami. However, senior branch managers are not named. BCCI was used as the wire transfer point in the scheme and not as the receiver of cash.

#### **LIQUIDITY**

The indictments have resulted in some deposit outflows from BCCI's U.S. offices. However, all requests for withdrawals and early payments of deposits have been met so far presumably from funds on hand or remittances from other BCCI offices. The withdrawals now seem to have essentially stopped.

BCCI has experienced withdrawals in the U.S. in the range of about \$150-200 million. This relates to a total third party deposit base of about \$700 million. Withdrawals in Florida have been met by bringing in about \$100 million from the Cayman parent, by drawing on existing U.S. liquidity, and some changes in other due to/due from accounts.

The effect has been a substantial reduction in the net due from position of the U.S. offices probably at the expense of the rest of the organization. The total net due from position appeared to have been running in the range of \$250-300 million. This position has been reduced to about \$150 million. (In addition, there is a secured mortgage loan in the New York office of \$55 million to an affiliate.)

The State regulators may decide, however, to request BCCI to reduce the net due from position even further. New York is already in a net due to position. California has asked BCCI to achieve a net due to position of about 5-8% of assets by the end of October. This would require BCCI to reduce the U.S. position another \$80-100 million either by bringing funds into the U.S. or transferring deposits out. Florida is considering a similar step which at this point also would require an additional adjustment in the \$100 million range.

#### **SUMMARY**

Regardless of the outcome of the federal indictments concerning the money laundering activities of individuals associated with BCCI's Florida offices, there are other prudential concerns about BCCI's U.S. operations.

- o The Florida offices have a history of inadequate compliance with the Bank Secrecy Act and the Financial Record Keeping Act dating back to 1984.
- o Management in Florida offices is viewed as un-cooperative.
- o The Florida offices are rated as less than satisfactory (3).
- o Criminal referrals have been made by the Atlanta Federal Reserve Bank concerning suspected money laundering activities in Florida.
- o The examination of the New York office revealed questionable activities that indicate a lack of satisfactory controls over Bank Secrecy Act reporting requirements.
- o The examination of the California office (San Francisco) revealed a violation of Regulation D regarding payment of domestic obligations with funds booked at the IBF.
- o BCCI had, before the Federal Reserve's intervention, a net due from parent and subsidiaries consolidated U.S. position of approximately \$300 million which represented roughly 33% of total U.S. booked assets. While not the only foreign organization to maintain a net due from position in the U.S. this amount is nevertheless, relatively high. The parents of the U.S. operations are located in Luxembourg and Cayman Islands which may not directly supervise global liquidity. Foreign supervisory authorities have indicated the belief that there is ample liquidity in the organization (\$3 billion plus) but this liquidity has not been identified as residing in a particular location.

#### **RECOMMENDATION**

State authorities have indicated that they may require BCCI offices to achieve and maintain a net due from position. California state authorities have expressed a view that they would expect BCCI (California) to maintain a net due to position by the end of October. BCCI (NY) is already in a net due to position. BCCI (Florida) is in a net due from position and has not as yet expressed any view toward reducing or altering this large position. Clearly, BCCI could meet the objectives of NY and California by merely increasing its due from position in Florida which would result in no net U.S. reduction. The question is whether the Federal Reserve wants merely to advise Florida on a recommended course of action regarding BCCI liquidity position in U.S. market or to direct any action against BCCI more formally. Foreign bank supervisory authorities have expressed the view that if the Federal Reserve takes action to ensure that BCCI complies with a minimum capital/liquidity standard in the U.S. it may place pressure on the overall organization, especially if other supervisory authorities were to join in these actions. Nevertheless, it appears

to be prudent for the Federal Reserve to take a position on the issue of what is an acceptable level of liquidity in the U.S. market.

In any event, it is clear we should consider a formal administrative action directed at BCCI complying fully with all the standards of the Bank Secrecy Act, the strengthening of internal controls and audit procedures generally and specifically as they relate to ensuring that money laundering does not occur; and, the condition of the Florida office should be brought up to a satisfactory level immediately. As previously mentioned, it would also be useful in this action to take a position on the level of capital/liquidity BCCI should maintain in the U.S.

A meeting is set with BCCI management (North America) and Legal Counsel at 3:30 p.m. today.

March 12, 1991

Prepared by: W. A. Ryback  
S. Schemering

Reviewed by: F. Struble  
V. Mattingly  
J. Coyne

#### FIRST AMERICAN/BCCI FACT SHEET

- BCCI is an organization which chose to charter its banks in a number of countries where secrecy laws are rigid. This makes it difficult for bank supervisors to communicate.
- BCCI has no one bank supervisory authority responsible for its consolidated activities. There is a college of supervisors overseeing BCCI's diverse structure which includes supervisors from England, Luxembourg, Cayman Islands, Hong Kong, and Spain.
- The Federal Reserve has no authority nor would it be permitted to examine the books and records of a foreign bank outside the United States. The Federal Reserve's supervision of foreign banks' activities outside the United States relies to a large degree on contact with the banks primary supervisory authority. As mentioned, in the case of BCCI this has been hampered by the lack of a supervisory authority responsible for the consolidated activities of BCCI and the concentration of banks in countries with stringent secrecy laws.
- Representations were made when First American Bankshares was initially acquired by Middle East investors that no financing of the transaction would be provided by BCCI. Since the acquisition the Federal Reserve has looked carefully during each inspection of the U.S. Bank Holding Company (First American Bankshares Inc.) for evidence of any unusual business practices relating to BCCI and/or its shareholders. The documentation on the loans to CCAH shareholders is outside the United States and not subject to our purview.
- The Federal Reserve, through its contact with foreign bank supervisors, learned of sizeable loans by BCCI to CCAH shareholders in 1989. Since this

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time, considerable effort has been expended to obtain facts and secure documentation regarding these loans. The new management of BCCI is cooperating fully with our investigation but it is nevertheless difficult to arrive at any precise conclusions. The loans to CCAH shareholders were advanced by prior management of BCCI and were allegedly accomplished outside the normal procedures of the bank. Also, prior management of BCCI was less than truthful in responding to our direct inquiry about the existence of these loans.

- A cease and desist order has been issued prohibiting First American Banks from engaging in transactions with BCCI. Also BCCI has agreed by consent to an order to divest of its shares of CCAH and terminate its operations in the United States.

3-12-91 ?

B

**Possible Responses to Questions Regarding  
the BCCI/First American Matter**

Based upon information obtained by the Fed in late 1990, the Federal Reserve on January 4 ordered a formal investigation into whether BCCI acquired control of the First American banks (CCAH) and whether false or misleading statements were made to the Board in 1981 when a group of wealthy Middle Eastern Investors (about 12) applied to acquire the banks.

- At that time, the Board was advised in the official application that the Investors were acting on their own behalf and with their own personal resources to acquire the banks and that BCCI was acting only as their investment advisor and would not acquire, or finance the purchase by the investors of, any of the First American shares.
- The Board took the extraordinary step of holding a hearing in 1981 on this issue. At the hearing, counsel for the Investors, and certain of the major Investors themselves, testified that they were acting independently and not for BCCI. As

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the attached ownership chart shows, these were wealthy individuals who were well able to shoulder the investment without financing without support from BCCI.

•      **Actions taken by Board to Date**

- Cease and Desist Order Prohibiting First American banks from engaging in transactions with BCCI pending completion of the Investigation.
- Cease and Desist Order requiring BCCI (1) to divest shares of First American (CCAH) that the Board believes BCCI controls and (2) to close its offices in the U.S. It has an agency in New York and Los Angeles.
- BCCI must submit a plan to do so within 60 days.
- This is an ongoing intensive investigation by Fed personnel into the matter, including the taking of sworn depositions and subpoenas for relevant documentation.
- We are consulting with Justice. If asked directly, you could confirm that we have made

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referrals to Justice regarding possible criminal violations.

- We are coordinating with State & Federal banking authorities to monitor the safety & soundness of the First American banks until the investigation is concluded.
- The new BCCI owner - the Ruler of Abu Dhabi - has injected substantial additional capital into the banks (\$80 million).
- We have no evidence that BCCI has harmed the banks financially and, as noted, we have prohibited future transactions until the investigation is concluded.

Why didn't the Fed uncover the BCCI/First American relationship before?

- It is very difficult to uncover fraud, when the actual state of affairs is being purposefully
- concealed and particularly when all the documentary materials are located in a number of foreign jurisdictions, some of which have stringent secrecy laws.

- BCCI did not acquire shares directly.
- We believe BCCI acquired indirect control of the shares through a series of complex lending and other agreements with certain of the Investors, all of which took place in foreign jurisdictions.
- Note: The Board was advised in the 1981 application itself and in testimony at a 1981 hearing on the matter that these Investors were acting for themselves and with their own resources and that BCCI would have no interest in the First American banks (CCAH) or finance any of the Investor's acquisition of CCAH shares.

What led the Fed to conduct the investigation?

- After BCCI's indictment, we looked into any financial ties between BCCI and CCAH, including contacting a foreign supervisor which confirmed the existence of the loans and that they were nonperforming. We obtained information in late fall of 1990 that an audit of BCCI commissioned by the new owner -- the Ruler of Abu Dhabi -- had shown substantial loans to a number of CCAH shareholders secured by the shares of CCAH. Fed

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staff obtained access to the report in late 1990. Subsequently, in December 1990 and January 1991, counsel for the Ruler of Abu Dhabi and BCCI provided the Board staff with a description of loan and other arrangements between BCCI and certain of the CCAH Investors, which indicated that BCCI had acquired control of a large number of CCAH shares.

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date May 13, 1991

To Mr. Taylor  
From Herbert A. Biern

Subject: BCCI--Cease and  
Desist Order Relating to  
Money Laundering

As requested the following is a brief description of the events leading up to the Board's issuance of a Cease and Desist Order against BCCI and its several agencies in the United States on June 12, 1989:

(1) On May 5, 1987, the Federal Reserve Bank of Atlanta (the "Atlanta Reserve Bank") made a criminal referral relating to suspected money laundering activities at BCCI's Miami's agency. The referral involved BCCI's Miami, Panama and New York operations.

(2) Over the weekend of October 8-9, 1988, the Justice Department served indictments on BCCI's senior management in the United States and seized, through a U.S. District Court Order dated October 7, 1988, BCCI's Miami agency. The Court Order froze all of BCCI's assets in the United States.

(3) On October 11th and 12th, the staffs of the Atlanta Reserve Bank and the Federal Reserve Banks of New York and San Francisco started comprehensive examinations of BCCI's United States operations at its six agencies.

(4) With the assistance of Board staff, the Florida State Comptroller of Banks issues, on October 24, 1988, a temporary cease and desist order against BCCI in Florida and removes the agencies' top management and imposes an asset maintenance requirement.

(5) Federal Reserve staff uncover additional money laundering offenses at BCCI's Florida and New York agencies. The Atlanta Reserve Bank makes another criminal referral, dated October 25, 1988; and the staff of the Federal Reserve Bank of New York (the "New York Reserve Bank") send a letter to the U.S. Attorney in New York and meet with his staff on November 4, 10, and 15, 1988 to discuss its findings.

(6) On November 15 and 16, 1988, the three Reserve Banks conducting the examinations of BCCI report to Board staff on their results.

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<sup>1</sup>Subsequently, the Justice Department agreed to an arrangement whereby BCCI would post a \$14 million bond and its assets would be released. You may recall that BCCI thereafter paid a \$14 million fine to the United States as part of its plea agreement.

(7) On December 7, 1988, the staff of the Enforcement Section distribute for comment the first draft of an enforcement action against BCCI. Numerous drafts of the action are prepared; and, on January 23, 1989, you initial a copy of my memorandum to you of<sup>2</sup> the same date showing your approval of the proposed order.

(8) Sometime between January 23 and February 15, 1989, a decision is made to present this matter to the Board for guidance prior to the presentation of the order to BCCI for its consideration because (a) the proposed enforcement action involved for the first time a major foreign financial institution, and (b) Board staff was not sure whether to go after the parent (e.g., BCCI) or just its agencies in the United States.

(9) Between February 15 and 27, 1989, a Board memorandum, with the draft enforcement action, was prepared. Mr. Struble approved the Board package on February 23, 1989, and Mr. Bradfield approved the package on March 3, 1989. The matter was presented to the Board on March 6, 1989. The Board advised staff that a cease and desist order against BCCI and its agencies was the proper course of action. On March 13, 1989, Mr. Struble approved my final version of the Cease and Desist Order by initialling my March 6, 1989 memorandum.

(10) Between March 20 and April 17, 1989, several meetings were held with BCCI's Washington, D.C. and Los Angeles counsel to negotiate the terms of the Cease and Desist Order. Several drafts of the Order were prepared and circulated among the Board's and Reserve Banks' staffs during this period.

(11) BCCI's board of directors in Abu Dhabi consented to the issuance of the Cease and Desist Order on May 9, 1989; and our Board issued the Order at its meeting on June 12, 1989.

(12) On May 2, 1989, the U.S. Attorney in Tampa subpoenaed Board records relating to BCCI; and, between May 9 and 20, 1989, we responded by forwarding voluminous records to the U.S. Attorney. On July 7, 1989, the staff of the U.S. Attorney's office in Tampa requested the assistance of an Atlanta Reserve Bank examiner to help with their investigation. Arrangements were made to comply with the request and help the investigation and prosecution.

(13) On January 16, 1990, I receive from U.S. Attorney in Tampa a copy of the final, executed Plea Agreement with BCCI.

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<sup>2</sup>My records indicate that Ricki Tiggert asked Mr. Bradfield for his comments on a draft of the order on January 6, 1989. I have no record showing his approval or comments.

For the first time, I am informed that BCCI is cooperating with the Department of Justice and pleading guilty. Also, for the first time, I learn that the Board's Cease and Desist Order is attached and made a part of the public Plea Agreement. Since BCCI's case was finished, I asked Rick Small and Tom Baxter to go to Tampa to discuss the case with the staff of the U.S. Attorney. They met with the prosecutors on February 7, 1990.

## JONES, DAY, REAVIS &amp; POGUE

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WRITER'S DIRECT NUMBER:

August 2, 1991

BY MESSENGER

Mr. William Taylor  
Director of the Division of Banking  
Supervision and Regulation  
Board of Governors of the  
Federal Reserve System  
Federal Reserve Building  
Room M3142  
20th & C Streets, N.W.  
Washington, D.C. 20551

Dear Mr. Taylor:

Attached is a letter that was delivered today to  
Mr. Clifford.

I hope for your support on the points made in the enclosed  
letter. It reflects views I have expressed to you in my  
earlier and regular communications with you. The most recent  
of the proposals advanced by Messrs. Clifford and Altman still  
does not, in my view, adequately address First American's  
problems. During the past week, there has been confusion with  
respect to your position on the question of Messrs. Clifford  
and Altman remaining as officers and directors of First  
American.

I look forward to speaking with you about these matters  
early next week.

Sincerely,

  
Charles McC. Mathias

Attachment



# Fed Told in Early 1989 That BCCI Owned Washington's Biggest Bank, Officials Say

■ **Regulators:** Statement conflicts with testimony by agency's chief counsel. A full-scale inquiry was not started until almost two years later.

By DOUGLAS FRANTZ  
Times Staff Writer

**T**AMPA, Fla.—Federal banking regulators were offered evidence that the Bank of Credit & Commerce International owned Washington's First American Bank nearly two years before opening a full-scale investigation of the linkage, law enforcement officials say.

Two senior IRS agents described allegations about BCCI's secret ownership of First American Bankshares to a Federal Reserve System official at previously undisclosed meetings on Feb. 1 and 2, 1989, according to federal authorities familiar with the sessions.

The IRS agents were taking part in a joint IRS-Customs Service investigation that led to BCCI's indictment for money-laundering in October, 1988, in Tampa. They offered to provide the Fed with four or five witnesses to detail the connections between the banks, the sources said.

But the Fed official said that his agency would need documentary evidence before it could act, the sources said. And, only two weeks later, the Federal Reserve approved an application by First American, the largest bank in the nation's capital, to buy a small bank in Pensacola, Fla.

Disclosure of the February, 1989, meetings appears to contradict testimony by Fed general counsel J. Virgil Mattingly Jr., who told the Senate that the only contact his agency had with the investigators in Tampa was a two-minute telephone call from authorities in December, 1988.

**M**oreover, the Fed did not begin a full investigation of BCCI and First American until late 1990. Last May, the regulators ordered BCCI to sell its hidden stake in the Washington bank. In July, the Fed fined BCCI \$200 million for allegedly deceiving the Fed.

Two congressional committees are examining the Federal Reserve's handling of the BCCI-First American case. Critics contend that the Fed did not respond quickly enough to long-standing allegations that BCCI owned First American.

But Fed officials have insisted that they acted as soon as they had hard evidence.

Attempts last week and on Tuesday to interview Fed officials about the February 1989 meetings were unsuccessful. Frank Keith, an IRS spokesman in Washington, confirmed that two agents met with a Fed official in February, 1989, but he said that he did not have any details.

However, sources close to the Justice Department's criminal investigation of BCCI described the meetings and the information that they said was passed to the Fed. The move was intended to blunt criticism that the Tampa investigators had been slow to provide information to regulators.

The agents are said to have provided results of a yearlong undercover inquiry in which a customs agent recorded at least three conversations in which a BCCI officer boasted that the bank had secret control of First American and other U.S. banks.

After BCCI and eight of its employees were indicted on money-laundering charges in October, 1988, other witnesses provided investigators and prosecutors in the U.S. attorney's office here with more evidence of the bank's link to First American.

In testifying before a Senate panel last May, Mattingly said that the only effort by the Tampa investigators to pass information to the Fed was a two-minute telephone call on Dec. 27, 1988, placed by IRS agent David Burris to William Ryback, a Fed bank supervisory official.

However, law enforcement sources said that, on Feb. 1, Burris and his supervisor, Maurice Dettmer, flew to Washington to meet with Ryback.

Although the primary goal of the two agents was to obtain information for the upcoming criminal trial, the sources said, they provided Ryback with a full rundown on the evidence that had been obtained about the BCCI-First American link.

**"T**hey said they could produce four or five witnesses who would describe how BCCI owned First American," said one of the sources, who spoke on condition that he not be identified, as did the others. "But Ryback said he needed documents."

Rumors that BCCI controlled First American had circulated since at least 1982, when a group of Arab investors associated with BCCI obtained approval from the Fed to buy the Washington banking company, which operated banks in five states.

Clark M. Clifford and Robert A. Altman, the two Washington lawyers for BCCI who became executives of First American after the

## BACKGROUND

■ BCCI, which had offices in 73 countries and assets of \$20 billion at its zenith, was shut down on July 5 by regulators in several countries after an audit uncovered massive losses and apparent fraud. The bank is the target of several criminal investigations and its two founders have been indicted in New York City. More indictments are expected.

acquisition, denied that there were any financial ties between the two banks.

Concerns about BCCI were raised again at the Fed after the Tampa indictment. At the time, First American was seeking Fed approval to buy the small bank in Pensacola. The Fed conducted a special inquiry but found no ownership link between BCCI and First American.

In a letter to Altman approving the Florida purchase, the Fed said that its investigation found no financial ties with BCCI. The letter was dated Feb. 16, 1989, two weeks after Burris and Dettmer visited Ryback.

The Fed did not begin a full investigation of BCCI and First American until December, 1990, after Robert M. Morgenthau, the Manhattan district attorney, told regulators that an audit of BCCI showed \$854 million in loans to First American shareholders, using the bank's stock as collateral.

Last May, the Fed ordered BCCI to sell its hidden stake in First American. Two months later, in fining BCCI \$200 million because of the deception, the regulators charged that the international bank had controlled First American since at least 1984.

*L.A. Times  
9/4/91*



U.S. Department of Justice

United States Attorney

District of Columbia

Judiciary Center  
333 Fourth St. N.W.  
Washington, DC 20001

July 12, 1991

J. Virgil Mattingly, Jr., Esq.  
General Counsel  
Board of Governors of the  
Federal Reserve System  
Washington, D.C. 20551

Dear Mr. Mattingly:

The Federal Reserve has forwarded to this Office a criminal referral regarding the activities of BCCI Holdings (Luxembourg) S.A., its subsidiary banks, and Dr. Ghaith Pharaon, in connection with the Independence Bank, Encino, California. We also understand that, in connection with this matter, you are considering filing before the Board of Governors a notice of assessment of civil money penalties, as well as a notice of intent to seek prohibitions on certain individuals' future participation in financial institutions.

Although we recognize the Federal Reserve's regulatory interest in civil money penalties, a recent line of cases, following the Supreme Court's opinion in United States v. Halper, 490 U.S. 435 (1989), makes it necessary for this Office to request that you temporarily refrain from seeking civil money penalties, or associated prejudgment attachments, to the extent such penalties exceed those necessary to accomplish remedial aims: i.e., to the extent the penalties exceed amounts intended as compensation for damages and as restitution for investigatory costs. We have no objection, however, to your seeking prohibitions on the individuals.

Under Halper and its progeny, in certain circumstances the imposition of civil penalties, to the extent they are deemed to constitute "punishment," could raise the bar of Double Jeopardy against a subsequent criminal prosecution. Accordingly, to ensure that your regulatory actions do not have the unintended consequence of precluding the criminal investigation you have referred to us, we ask that you temporarily refrain from seeking civil monetary penalties other than for compensation and restitution, pending the completion of this Office's criminal inquiry. If, after that inquiry, we determine that prosecution should be declined, you would of course be free to seek whatever civil penalties you deem appropriate.

We are grateful for the substantial assistance your staff has given us in this matter, and for the high level of cooperation they have shown. We are also mindful of the considerable skill with which they have undertaken their investigation. We look forward to continuing to work together to meet both your regulatory and our law enforcement responsibilities.

Sincerely,

A handwritten signature in cursive script, appearing to read "J.B. Stephens", with a long horizontal flourish extending to the right.

JAY B. STEPHENS  
United States Attorney



## U.S. Department of Justice

United States Attorney

*District of Columbia*

Judiciary Center  
 555 Fourth St. N.W.  
 Washington, DC 20001

July 29, 1991

BY TELEFACSIMILE

J. Virgil Mattingly, Jr., Esquire  
 General Counsel  
 Board of Governors of the  
 Federal Reserve System  
 Washington, D.C. 20551

Dear Mr. Mattingly:

The Federal Reserve has forwarded to this Office various criminal referrals regarding the activities of BCCI Holdings (Luxembourg) S.A., its subsidiary banks, Credit and Commerce American Holdings N.V. (Netherlands Antilles), and Dr. Ghaith Pharaon in connection with the First American group of banks and the National Bank of Georgia. We also understand that, in connection with these matters, you are considering filing before the Board of Governors a notice of assessment of civil money penalties against certain corporations and individuals, as well as a notice of intent to seek prohibitions on certain individuals' future participation in financial institutions..

We have no objection to your seeking civil money penalties against the corporations and prohibitions on the individuals. However, we request that you do not seek such civil money penalties at this time against the individuals to the extent that such penalties exceed amounts intended as compensation for damages and as restitution for investigatory costs.

As we stated in our letter to you of July 12, 1991, relative to another criminal referral made by the Federal Reserve to this office, we recognize the Federal Reserve's regulatory interest in seeking civil money penalties. However, as we also noted in our previous correspondence, the Supreme Court's decision in United States v. Halper, 490 U.S. 435 (1989), makes it necessary for this office to request that you temporarily refrain from seeking civil money penalties, or associated prejudgment attachments, against the individuals to the extent that such penalties exceed those necessary to accomplish the remedial aims of damages and investigatory costs.

We take this position in order to ensure that the regulatory actions of the Federal Reserve do not have the unintended consequence of precluding investigation and, if warranted,

J. Virgil Mattingly, Jr., Esquire  
July 29, 1991  
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prosecution of the afore-referenced criminal referrals. Accordingly, we ask that you temporarily refrain from seeking civil monetary penalties against the individuals other than for compensation and restitution, pending the completion of this Office's criminal investigations. If, after those investigations, we determine that prosecution should be declined, you would be free to seek whatever civil penalties you deem appropriate.

The continued cooperation of your staff has been most appreciated.

Sincerely



JAY B. STEPHENS  
United States Attorney

